AGRICULTURAL CREDIT

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PREFACE

WITH the development of the economic activity of humanity, credit transactions between the various nations and individuals are being correspondingly developed and, ultimately, become the regulating factors of the whole of economic life.

And quite naturally so, for the development of human economic activity is related in its origins to the division of labour, which demands a production not destined for its own consumption but for sale; then, to the extension of the radius of activity of economic enterprises, viz. the purchase and sale of raw materials and manufactured products, and, subsequently, to the immense expansion of enterprises, especially industrial and banking, and also to the exceptional influence exercised by Capitalism on the whole social economy.

These distinctive marks of the economic development of nations, representing activities developed not concurrently, which, however, do not exclude each other, but mutually contribute to their more intensive manifestation, have served, as is known, to subdivide economic evolution into set phases or epochs for its better understanding. Such phases are that of Physical Economy, characterised by production for domestic consumption; that of Exchange, or Monetary Economy, characterised by production destined for disposal by sale, by the exchange of products and the utilisation of money in this connection. This phase is also characterised by the fact that exchange is taking place within the bounds of the same town and of the immediately adjoining countryside, hence its respective economy is also known under the designation of Urban Economy. The third phase, National Economy, is characterised by the fact that exchange intercourse and transactions are still further developed and extended to cover all the parts of a given

country or a State. The fourth epoch, the contemporary one, known as Capitalistic, or World Economy, bears as its characteristics, on the one hand, the great importance and power attained by big Capital, and, on the other, the extension of the transactions to all countries and the mutual interdependence of their respective economies.

It is evident that the more the said characteristics are manifest and the more human activity is advancing in the track of the evolution outlined above, the less a given enterprise can rely only on its own capital. And this, not only because there frequently does not coincide in the same person, real or legal, the tendency and the capability for the carrying out of a set enterprise, as well as the presence of the requisite capital, but, equally, on account of the fact that a given enterprise does not call permanently for the same amount of capital during the whole of the year, and because the necessity arises for drawing upon other people's capital due as much to endeavours to conquer consumption markets, which means granting credit to consumers, as to seizing favourable opportunities for acquiring on convenient terms raw material and merchandise generally, and also for facing adverse circumstances, crises, and in general the anomalies in the working of each enterprise. Finally, in view of the possibilities for expansion and realisation by this means of bigger profits, every enterprise—regardless as to whether it disposes of adequate capital—is invariably feeling the need for drawing upon other people's capital, accorded under the guise of credit, for its own furtherance and its development.

The German economist Hildebrand, bearing in mind the exceptional importance of credit transactions, has given to the third phase of the economic evolution the name of Credit Economy, viz. of economy based on credit intercourse, on credit. The importance of Credit, however, has still further increased with the development of the economic life. It may be said that, nowadays, the whole of the economic movement is founded on Credit, with its centre in the credit organisations, to which, from innumerable large and small sources, even the remotest ones, more and

more capital is flowing, so that they become the heart of the economic life of nations. Credit transactions, growing daily, have long since surpassed the boundaries of States, and were instrumental in leading to the mutual interdependence of the credit institutions of the various countries.

Characteristic instances of the said evolution are the recent German crisis and the subsequent, and to a certain measure due to the former, British crisis, both of which arose out of credit factors and the acuteness of which was remedied through the renewing or granting of colossal new credits from abroad.

The interdependence of the banking institutions of the various countries is moving parallel with the expansion of the exchange of products between all the parts of the world, also with the world-wide character of modern economy, and is found to be under the closest mutual influence of both.

From the foregoing it becomes evident, what an exceptional importance is presented for the understanding of economic facts and phenomena by the study of problems related to Credit, and also to the organisation and working of credit institutions.

The great importance and necessity of Credit was felt comparatively later by Agricultural than by Industrial and Commercial enterprises. Considering Rural Economy comprised the production of the largest number and principal articles of its consumption, also that the method of cultivation was primitive, not requiring important capital as long as the persons cultivating the land were dwelling under serfdom, or were only tenants, Agricultural Credit transactions were rare, and represented rather exceptions from the rule. Such transactions emanated from accidental causes only, very often unrelated to the agricultural enterprise itself, or were due to requirements for the acquisition of land.

But from the time that one after another the secondary production branches became detached from Rural Economy, and the latter found itself forced to revert, for the covering of a part of its daily increasing needs, to the Market, and,

consequently, to look also there for the sale of its products, regular credit needs were created, which increased with the intensive cultivation of the land and called for the utilisation of capital for this purpose, as well as for the creation of small rural enterprises to replace the extensive ones, this following the liberation of the peasantry from serfdom, or the installation and colonisation of cultivators. In England, more than a century ago, the use of machinery for the cultivation of wheat created the need for utilising larger capital, and, consequently, for the granting of Agricultural Credit. The liberation of the peasantry in Germany during the first half of the past century led to the foundation of the first Agricultural Credit Institutions. The utilisation of fertilisers and of improved machinery, and the greater specialisation in agriculture, due to the extended world exchange of products, have further increased the volume of agricultural credit requirements.

The evolution in question became still more intensive after the Great War. In Central Europe, while previously the mobile capital, or exploitation capital, was calculated not to exceed one-fifth of the total value of an agricultural enterprise, four-fifths reverting to land and buildings, after the War the proportion of the value of real property decreased to two-fifths of the total value of an agricultural enterprise. The value of the mobile capital has increased correspondingly.

Credit needs have also increased following the War, owing to agrarian reform which resulted in the multiplication of independent, small agricultural enterprises lacking in sufficient capital and on account of the crisis due to fall in prices and difficulties in sales of agricultural products.

The organisation, therefore, of Agricultural Credit has acquired an exceptional importance for every country; to such an extent that, in view of the economic interdependence of the various countries, the necessity was felt by the League of Nations for the establishment of an International Bank for Real Estate Agricultural Credit.

The credit requirements of agriculturists arise either in connection with the acquiring of real property through

purchase or repartition, or the necessity for improving the productivity of the land by carrying out comparatively permanent amelioration works, or for the cultivating of the soil. These objects and their subdivisions require specific forms of credit, to meet which special credit organisations are needed.

The causes of and the objects for the granting of Agricultural Credit, detailed above, do not exhaust their variety and peculiarities. What additionally characterises them is that the said credit is being utilised by Agricultural enterprises, viz. enterprises the production of which is as a rule a slow one, and dependent upon changeable weather conditions with an output inferior to that of Industrial and Commercial enterprises, and, finally, by enterprises whose demand for credit is being manifested in a fragmentary and decentralised way.

The fulfilment of Agricultural Credit requirements by ordinary centralised banking institutions would therefore not prove useful. Hence the imperative need for the establishment of small local credit institutions based on mutual liability and on the mutual acquaintance and control of the agriculturists themselves, and, on the other hand, of special central credit institutions bearing a public utility, or State, character.

Dr. A. J. Boyazoglu, author of an extremely interesting and valuable book on the post-War Rural Economy of Greece, recently published in French, has studied profoundly and from all points the various problems related to Agricultural Credit. In this present work he deals with the subject with exceptional erudition and amazing thoroughness. Although of a rather theoretical character, the present volume will prove equally valuable to both those taking a theoretical or a practical interest in the matter.

DR. A. PAPANASTASSIOU.

Athens, September 1931.

INTRODUCTION

The carrying out of this present study is related to the protracted and insistent discussions among the scientific and, especially, the political world in Greece on the eve and, specifically, after the signing of the protocol concerning the establishment of the Agricultural Bank of Greece [1]—discussions which covered the whole of the year 1928. The Union of Agriculturists, in their desire to form an objective scientific opinion on the best way of organising and administering the Agricultural Credit, have entrusted us with the honour of undertaking the task.[2]

Concurrently with the theoretical study of the question, we have proceeded with the investigation also of Agricultural Credit organisation and its actual situation in various countries—as much through the medium of the bibliography available, periodicals and other publications of every description (balance sheets, annual reports of administrations of Agricultural Credit Institutions, etc.), as well as through a direct contact either by correspondence with or visits to the proper quarter in each separate country.

The present volume contains mainly the theoretical part of the study. The latter represents, in greater part, the conclusions of an extensive investigation and of a comparative study of Agricultural Credit in various countries, within the general frame of Rural Economy, and of other conditions prevailing in each one of them, as well as the product of a strict verification in practice of abstract theoretical conceptions that have prevailed in Science.

The abundant and precious material that has served as basis for this present work would more than suffice for the publishing of a voluminous descriptive work regarding the

[1] End of 1927.

[2] About the end of the year 1928.

organisation and the actual situation of Agricultural Credit the world over. We are not sure, however, how far a similar analytical work would be of interest to a sufficiently wide circle of readers—and the issuing of this second volume would depend upon future facts.

The enlightening Preface by which this present work of ours has been honoured on the part of the former Prime Minister and an economist of renown, Dr. Alexander Papanastassiou, leader of the Agrarian and Labour Party of Greece, permits us to dispense with a long Foreword. We shall therefore limit ourselves to a simple delineation of our study and to giving just a few necessary explanations.

The extent and the contents of the subject have imposed, for the sake of a more systematic appearance of the work, the division and the classification of the material in an appropriate way, leading to the separate examination of certain self-dependent parts. Nevertheless, the connection of the latter with each other, as well as with the remainder of the whole work, is absolutely attained thanks to multiple references in the text and also within the general frame of the work.

The first chapter is dedicated to things related to the genesis, the actual position and the special characteristics of Agricultural Credit within the general frame of Credit. We then deal in short with matters related to Capital in Agriculture, without the knowledge of which the investigation of certain problems and conceptions of our study would prove impossible. Follows the examination, in general lines, of the organisation and the forms of Agricultural Credit, also of Agricultural Credit transactions.

The analytical investigation of the problem proper we have carried out by Agricultural Branches separately—following, on the one hand, the prevailing classification based on the variety of guarantees offered, and, on the other hand, that founded on the economic predestination of Credit granted. But a similar investigation of the problem, especially on the basis of the first of the two above-mentioned classifications, presupposes a study—be it only a synoptic one—of the most important question of Guarantees in

Agriculture. We, therefore, considered it indispensable to have it preceded by the respective chapter.

Having then dealt—as far as absolutely necessary—with the points of Indebtedness and Usury in rural districts, we proceed with the comparative analytical study and criticism of the various systems of Organisation of Agricultural Credit, and afterwards pay special attention to Agricultural Credit Policy. The last chapter in the work is dedicated to International Agricultural Credit.

The principal bibliographical data are given at the end of the volume, and the reader may refer to these in case of need.

In conclusion, we consider ourselves in duty bound to express to all those friends, Institutions and Organisations that have so kindly put at our disposal the rich material serving as basis for our book, or called our attention to set aspects of the problems dealt with, or, finally, facilitated our task in some other way—our deepest gratitude.

We feel under obligation specially to mention here the names of Prof. D. Santis, who read the manuscript, Prof. L. Tardy, Dr. H. L. Fensch, Prof. D. Stephanides, and Assistant-Prof. A. Lidgeropoulos.

We are also deeply indebted to our good friend Ch. Lessios, Esq., for valuable assistance rendered.

And, last but not least, my gratitude goes to Dr. A. Papanastassiou, who has done me the honour to preface my present work.

THE AUTHOR.

Salonica, October 1931.

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CHAPTER I

AGRICULTURAL CREDIT AS AN INDEPENDENT CREDIT BRANCH

A. The Place of Agricultural Credit within the General Framework of Credit

Credit[1] in general presents itself as something unique, but its utilisation in the various branches of production, viz., Agriculture, Trade, Industry, Shipping, etc., presupposes its adaptation and harmonisation to the special production conditions and requirements of each of these branches.

This specialisation brings with it more or less radical changes—in conformity with each instance. If, therefore,

[1] The etymology of the word Credit is traced back to the Latin *credere*. We call Credit, in general, the confidence of the general public with regard to a real or a legal person, that the latter is going to fulfil obligations already undertaken, or to be undertaken. In a stricter sense, Credit consists in the exchange of existing goods against future ones (cf. Gide, *Cours*, etc., I, p. 486). It is, therefore, merely an extension of exchange. M. Ansiaux (*vide* Ansiaux, *Traité d'Economie Politique*, II, pp. 339 sqq.) considers this definition as "exaggerated and incomplete." Certainly it is not an easy matter to give a general, complete and short definition, and no other writer consulted has satisfied us in this respect.

In practice, the exercising of Credit is manifested in the granting by the Creditor (lender) of ready Capital, in the shape of money or goods, to the Debtor (borrower), who duly guarantees the former regarding the timely return of the Loan, after use. Against the services rendered, the lender obtains from the borrower, on dates fixed in advance, apart from the Capital lent, which is to be returned, also the Interest on it, viz., a kind of hire on his Capital.

It follows from the foregoing that the main characteristics of Credit are: the consumption of certain goods and possessions, and the expectation of goods destined to replace the same.

The object of Credit is to canalise Capital from the owner, lacking the desire or capability to utilise it, on to others inclined and better adapted to handle it productively. Credit usually appears under the two forms of Sale on Credit and of a Loan; of the two, the second is the one which interests us.

The granting of Credit in older times was done in a spasmodic manner, lacking system, by the money-lenders whose profession was, as a rule, allied with usury. With the passage of time, in civilised countries money-lenders have, to a great extent, been replaced by Banks, to whom the systematic organisation of Credit is due.

B

we take as a basis the branch of production in which it is being utilised, we distinguish a variety of forms of Credit, the principal ones being: (*a*) Agricultural Credit, (*b*) Trade Credit, (*c*) Industrial Credit and (*d*) Shipping or Marine Credit.[1]

We call Agricultural Credit the credit having as its object the granting—under any conceivable form—to Agriculture of the economic means required for its work. The granting of credit is effected either directly to the Agriculturist (taken as a real or as a legal person, Co-operative, Agricultural Enterprise, Company, etc.), or to Organisations of every description occupying themselves, from any given angle, with agricultural matters.

This, however, is Agricultural Credit in the large sense of the word.

From a narrower point of view, the object of Agricultural Credit is to strengthen, by the granting of credit, agricultural enterprises solely so far as the expenses of exploitation are concerned. The granting of credit to Public Law Organisations for the carrying out of agricultural works of more general importance is not considered as an Agricultural Credit operation, nor is aid for purchasing of, or effecting additions and improvements by the agriculturist to, an existing estate.

In former times this narrower meaning prevailed. Nowadays, at least in substance, the wider meaning has been imposed. Nevertheless, many scientists, even among the most renowned, continue to accept the narrow meaning of the term Agricultural Credit. They are thus driven into a contradiction. In reality, all admit that the characteristics of Agricultural Credit are neither the time-limits nor the guarantees nor anything else, but its destination, consisting in the serving of agricultural interests.

But does or does not the effecting of Agricultural or Land Improvements serve the interests of Agriculture? Or the expansion of an estate for the purpose of a better

[1] Some include also, although well separated, Popular Credit, confounding this with Professional Credit. But Popular Credit, although it serves mainly professionals in a small way, could find its proper place only in a classification based on the social classes to whose interests it attends.

and more complete exploitation of the whole? What then is the reason for sticking to the old conceptions?

The much-discussed confusion between Agricultural and Real Estate Credit [1] is excluded for those at least who have a clear idea of things, it being assumed that Real Estate Credit concerning Agriculture represents a branch of Agricultural Credit, whilst Real Estate Credit not connected therewith forms an entirely distinct category of credit operations.[2]

The same might be said with regard to other branches of credit having as their distinctive mark the guarantees [3] or other elements of credit, and which are applicable to diverse production branches, or are being utilised for various objects.

B. Genesis and Evolution of Agricultural Credit

(1) Historically, the *Genesis of Agricultural Credit* has never been precisely ascertained; its outline or non-organised form is lost in the depth of past centuries.

But in the logical order of things we are brought to the conclusion that its origins could not possibly be before the period when the agriculturist ceased to produce only for feeding himself and his family, only for the immediate satisfaction of his own needs, and started to produce also for marketing purposes.

(2) *Evolution during the centuries.*

(*a*) In ancient times. The practically absolute isolation in which the Agriculturist dwelt is well known. This was due partly to the primitiveness of the means of communication, which created so many difficulties with regard to contact with the urban centres of consumption for his produce, and partly to the fact that the said centres from the point of consumption did not present the importance which they acquired later in connection with the development, amazing from every aspect, of the great cities.

[1] Cf. Gide, *Cours*, etc., I, p. 506; also Oualid, *Cours*, etc., p. 692.

[2] Cf. The Forms under which Agricultural Credit is presented, pp. 44 sqq.; also The Real Estate Agricultural Credit, pp. 113 sqq.

[3] Cf. The Personal Agricultural Credit, pp. 75 sqq., Agricultural Credit on Pledges, pp. 90 sqq., and The Mortgage Credit in Agriculture, pp. 92 sqq.

To this isolation of the agriculturist, lack of education and a mentality governed by an undoubtedly narrow conception regarding his independence and self-sufficiency contributed also. It was the result of the influence of the generally adverse circumstances under which he was living. For the reasons stated, the exchange of goods was, comparatively speaking, exceptionally low, the agriculturist, as a rule, limiting his activities to the disposal of the excess of produce, left after satisfying his immediate needs, in the centre of consumption nearest to his abode.

The capital then required for an agricultural enterprise was small, owing to the primitiveness of the means of cultivation; hence the very low demand for capital in agriculture.

Under these conditions we certainly cannot possibly speak seriously about Agricultural Credit, at least in the contemporary sense of the word.

Nevertheless, we meet outline forms of Co-operative [1] and Real Estate Land Credit,[2] especially during Roman times.

(*b*) During mediæval times, the agriculturist was, as a rule, deprived not only of ownership of land, but also of every personal initiative. Under the feudal system, and the general dark surroundings of the time, the agriculturist, as serf, was limited to cultivating the land of his lord, according to the methods practised by his ancestors, and to employing the most primitive means. In case of an eventual bad crop leaving a deficiency in the poor budget for the upkeep of his family, or in instances of need, he would, as a rule, address himself to his lord, or, on his permit, to the nearest usurer, in order to obtain, usually under very heavy conditions, the necessary means for his own and the family's support, or for meeting an exceptionally pressing need, which more often than not had no connection whatever with the production he laboured at.

There was not much difference in the situation of the free agriculturist, who, instead of becoming ever more and

[1] Cf. The Pioneers of Co-operative Agricultural Credit, p. 79.
[2] Cf. The Historical Evolution of Real Estate Land Credit, p. 128.

more enslaved to his feudal lord, usually became the slave of the usurers alone for the same or similar reasons.

Under its present meaning, Agricultural Credit was unknown in mediæval times.

(*c*) During the first period of the post-mediæval epoch the situation remains unchanged in substance, regardless of the more important general changes that took place.

During the period of Mercantilism, Agriculture finds itself under contempt, and nobody pays it even the slightest attention.

It is true that the Physiocratic School, by acknowledging the capital importance of agricultural production,[1] livened the interest in agriculture, especially in France. The conceptions, however, of Quesnay, and the other physiocrats, concerning the conditions of land ownership, and their categorical preference for cultivation in a big way, which they considered more beneficial from every standpoint, have, in substance, strengthened the status prevailing in agricultural economy. In consequence, even in France, no serious change in cultivating conditions has been brought about, and the surplus means required by agriculture for the extension of cultivation, if not provided by landowners themselves, were raised by them and by the small-holding peasantry from money-lenders. The usury burdens following the securing of such loans were transferred, after being made still heavier, by the landowners, usually acting as intermediaries, to the shoulders of the agriculturists for whom they were destined.

(3) *The Genesis, in substance, of the Problem of Agricultural Credit.* Beginning from the middle of the eighteenth century, the structure of agricultural economy of the civilised countries, and especially on the Continent, became radically changed owing to various successive events.

The emancipation of the peasantry in Europe, accomplished by the middle of the nineteenth century, was the main point of departure of the changes effected in all directions. Relieved from the yoke of the landlord, the peasant formed an independent economic unit, requiring

[1] Cf. Gide & Rist, *Histoire des Doctrines Économiques*, pp. 13 sqq.

for its evolution, among other things, financial means.[1] And, so long as the general situation would not undergo any drastic changes, so long as means of communication would continue to be in a primitive state, and the agriculturist remain as heretofore in an absolute isolation, with a more or less guaranteed outlet for the excess of his produce in the nearest consumption centre, the economic needs arising from the emancipation of the peasantry from serfdom could possibly be met. The agriculturist would thus have all the time required for becoming stronger, and for his evolution.

But with the emancipation of the peasantry in Europe coincided the accomplishment of radical changes in economy in general. Urban centres became developed, the demand for agricultural produce was extended and the improvement in means of communication allowed of a rapid and cheap transport to them of country produce.

The European agriculturist already obtains more important outlets easily reached, owing to improved communications, but finds himself obliged to compete, commercially and as far as quality is concerned, with production under the best possible conditions elsewhere. This implies far greater care in cultivation, as well as every practicable economy in production work. But this again presupposes technical knowledge, appropriate organisation and abundant and cheap capital. Such things neither existed nor could easily be obtained by the European producers. In consequence, the problem of needs in Agricultural Credit arose in Europe.

During the same period (middle of the nineteenth century) a real stimulus in agriculture is noticeable in the New World (America and Australia). The inhabitants there saw clearly that the virgin lands at their disposal offered a splendid opportunity for becoming rich without much effort. Realising that they had a guaranteed outlet for their produce, not only locally—in view of the amazing development of these countries—but even in Europe where

[1] In England, although the freeing of the Agriculturist was accomplished, the situation has in substance changed but very little, because the peasant has passed from serfdom straight to proletarianism.

the land in most parts was already exhausted and where scant attention was paid to agriculture on account of its absorption in industry, they made energetic efforts to increase their production. They had land in abundance, and rich fertile land too ; so all that was needed was the necessary capital for the expansion of cultivation to effect this purpose.

Hence, two totally different reasons, the intensifying of agriculture in Europe and the expansion of cultivation in the new countries, in substance created credit needs in agriculture and brought to the forefront the problem of organising this credit.

(4) *When the Problem was first confronted.* The high importance of this branch of credit became clear, and was soon formulated according to contemporary conceptions, since progress made in Chemistry, Biology and in the Natural Sciences and Mechanics generally was applied to the study of agriculture, thus encouraging the development by leaps and bounds of agricultural science and the industrialisation of agriculture and all its branches. This demanded the diversion of immense capital to rural districts.

Within a few score years we notice an organisation—in most cases aided by the State, but elsewhere without its aid—of Agricultural Credit such as prevails in our times in civilised countries. This organisation, amazing by comparison with that formerly existing, serves as a mirror of the whole of our social and economic evolution.

The progress of banking and the science of economics in general could certainly not but influence to a great extent the final shaping of this organisation, and we may say that already it is tending to reach its definite form.

C. The Main Object of Agricultural Credit

For each productive branch, under given conditions, there is an " optimum " participation of each of the factors in the work of production—thanks to which the best obtainable results are attained.

The insufficient participation of a given factor of production in the productive work, especially over and above

a set limit, is detrimental, as it causes a reduction in the comparative capability also of the other factors.

This unquestionable truth as regards all productive branches is more prominent in connection with agriculture especially in respect of the factor capital, the importance of which in production, and specifically in agricultural production, has, of late, increased so much and continues to increase.

Agricultural Credit, therefore, has as its principal object the supply of such capital as proves necessary for establishing the ideal analogy between the factors of production, rendering more productive not only the other factors, but also the available capital which it strengthens.

D. Importance, Qualities, Advantages and Disadvantages of the Credit

(1) The credit brings about increased production, through the better utilisation of available capital, which, thanks to it, is put at the disposal of persons best adapted to make use of it.

As a matter of fact, the sum borrowed by a farmer, provided it is put to a proper use, usually renders much more in his hands than by remaining in the possession of the lender.

In the same way seed, manure and machinery, obtained by the farmer on credit, are by him rendered productive; whilst they would render nothing by remaining in the warehouse of the merchant. The soil which would show but very poor results if untilled by the owner, is transformed into a source of wealth if passed on to an experienced and hard-working farmer for exploitation.

Under the economic organisation prevailing, the importance of the credit for the work of production is so great, that it may be said that the advance of a given production branch, and not seldom its very existence, depend upon the standing organisation of credit and the means the latter offers for the purpose.

Thanks to the credit, even the smallest sums of capital

may be used and rendered productive under the best conditions.

Thanks to the credit, a thrifty and progressive man, to whatever social class he may belong, is given the opportunity to place advantageously his savings and secure additional income, often to get his living without being obliged to create personal enterprises of doubtful result, even if to this end he disposes of all means required, which seldom happens.

The credit allows an enterprising person in a large way to extend his enterprise, or to effect the improvements required, thus deriving greater benefits from the enterprise as a whole. To the agriculturist in a smaller way it affords the capital absolutely necessary for stabilising and gradually advancing his business.

Properly used, the credit may contribute, to a great extent, to the improvement of conditions for the weaker social classes, and to their strengthening, by allowing them to become capable to meet and overcome the crushing tendencies on the part of the stronger. Many people in common with Proudhon believed that a People's Credit could become, if not the sole, at least the main factor in the emancipation of the working classes. In practice, however, this is attainable only on a comparatively small scale, and only in conjunction of credit with savings, expropriations, tax protection, and other protective measures in favour of the proletariat.

The case is different as regards small-holders, small industry, and professionals and tradesmen in a small way. For them the medium of Popular Credit, wherever it has been carried out in a satisfactory manner, has proved its undoubted utility. This has prevented the small enterprises from becoming subsidiaries of the larger ones, also the reduction of small tradespeople to the rank of merely salaried workmen. If, therefore, Popular Credit does not make small capitalists of the proletariat, at any rate it saves, and in many cases serves the advancement of, the social class of people engaged in small business, *i.e.* the very class upon which, under present day economic organisation, every

healthy social structure is based. From this standpoint its beneficial influence is incalculable.

Credit Co-operatives [1] have greatly contributed to the expansion of Popular Credit.

The credit raises the moral standard of the agricultural classes and, more generally, of nations. By educating them in the fulfilment of obligations undertaken, it creates an atmosphere of confidence between contracting parties or nations, and contributes to their union and closer collaboration, to the general benefit.

There were people who thought it possible for credit even to create capital.[2] But, as John Stuart Mill remarked in his time, " Credit is nothing else but a permission to utilise capital belonging to others."

Nevertheless, the creation of titles representative of capital — bank-notes, cheques, etc. — irrespective of their facilitating payments, loans and other transactions, resulted in the possibility of one and the same capital being used by two persons concurrently, which, in practice, is equal to the doubling of capital, at least as regards its utilisation.[3]

Charles Gide characterises, and rightfully so, this quality of credit incorporated in titles as " almost wonder-working." [4]

Owing to its very nature, credit allows for deferred payment, but it may be said that to a certain degree through the " closing of the circle " it abolishes both payment and money [5] (exchange and clearance of bills, promissory notes and cheques).

[1] Cf. lower : pp. 77 sqq., 117 sqq. and 215.

[2] Cf. Gide, *Cours*, etc., I, p. 493 sqq.

[3] In reality, the person selling goods on credit, or lending money, obtains usually from the buyer, or borrower, a document in the shape of a Bill, or a Promissory Note, or otherwise. This title, as a document representing a given value, is negotiable—the seller, or the person granting a loan, is able immediately to realise the value of the goods, or he may become again, whenever he chooses, the master of the sum lent.

[4] *Vide :* Gide, *op. cit.*, p. 492.

[5] But we cannot foreshadow the definite abolition of money as such, because even if metallic coins were withdrawn from circulation, and all transactions were done by book-keeping, money all the same would keep its quality as a Measure of Value, and the book entries would perforce find their expression in money again. Documents representative of credit presuppose the existence in the banks' safes of the metallic coin, circulating unseen behind the scene on each payment made against cheques or bank-notes (cf. Gide, *op. cit.* I, pp. 496–502).

(2) *Disadvantages and Misuses to which Credit is subjected.*

"No good is free from a mixture of evil!" Credit, too, its manifold advantages apart, is subject to serious defects. Happily in most instances of misuse and abuse the latter do not appertain to the very nature of the credit and, therefore, it is not difficult, to a great extent, to prevent these defects from occurring, or, at least, to neutralise them.

They react mainly on the lender and very often on the borrower, sometimes on both. Anyhow, their reflection is more or less felt by the production, and on a part, sometimes on the whole, of a nation.

As far as the lender is concerned, he is in serious danger of losing for ever the sum lent, either on account of bad faith on the part of the borrower, or for other reasons. It is true that the law can set in motion all the measures indicated for protecting him. Unfortunately, neither mutual liability or other securities of whatever nature, nor the mortgage, are often sufficient for definite protection from such dangers.

The borrower, on the other hand, even if he employs the loan for purely productive designs, even if he uses every effort to make his enterprise a success, does not cease for a moment to run serious risks altogether independent of his own volition. A definite disaster and ruin are not excluded from the contracting of the loan, or from his purchasing on credit real property or goods, whenever the burdens undertaken are heavier than he can manage to bear, or if he meets with unfavourable and adverse conditions.[1]

Finally, if the assets of a ruined debtor do not cover his liabilities, and the lender is not guaranteed by sufficient securities, it is certain that the latter will perforce be a

[1] For instance, a farmer, owner in a small way, manages with the means at his disposal to cover annually the living expenses of his family. In order to improve the means of cultivation, with the object of increasing his income, he borrows a sum which is rather big in comparison with his financial situation, or obtains on credit manure, farm animals, implements, etc. If, owing to his own responsibility (unjustifiable expenses, serious technical miscalculations, etc.), or owing to a bad harvest and similar calamities, he is not able to manage to secure means for repaying his loan, his final ruin is sure, even if we exclude his becoming an inmate of a prison. In such an instance the credit will bring disastrous results, whilst without it this farmer might have continued his former life for an indefinite period.

participant in the results of the bankruptcy of the borrower, which sometimes means full ruin for him also.

In examining the many reasons for the risks of credit we find that chief among them are the following five, which we shall mention in their general lines only :—

(*a*) Utilisation of credit for consumption purposes.

(*b*) The confusion created by credit—especially when it is being used inconsiderately—in the administration and general life of an economically uneducated person, and the self-deception of the borrower as regards the extent of his own real income. He may indeed confuse the income derived from the sum borrowed with his revenues proper and means of livelihood, as a result of which he fails to make provision beforehand by deducting the sums required for the service of his loan.

(*c*) The creation of enterprises more or less risky, based mainly on credit, and unequal to the personal financial means of the owner.

(*d*) Bad administration, or serious mistakes in the management of enterprises good in themselves.

(*e*) Lastly, reasons independent altogether of the will and capability of the borrower (calamities, economic crises, war, civil rebellion, etc.).

From the social standpoint, credit whenever it does not bear the mark of public utility, offers the defect of strengthening those already financially strong, as these can give most of the desired securities; thus it leads to the increase of large fortunes to the detriment of the weaker classes.

(3) *The Relation between Advantages and Disadvantages.*

As already seen, the advantages presented by credit are larger and of greater importance than its disadvantages. Further, the risks emanating from credit can be, if not altogether frustrated, at least considerably reduced: (*a*) if the credit be exclusively used for productive purposes; (*b*) if its misuse be avoided, *i.e.* if it is used on a scale proportionate to the means at the disposal of the owner of an enterprise, or to the vigour proper to the enterprise itself; (*c*) if the sums borrowed are used in healthy enterprises and judiciously;

(*d*) if at least a part of the additional benefit accruing from the credit is being set aside by the agriculturist to meet the sinking of the debt at the earliest possible date; and (*e*) through the organisation into co-operatives of the economically weaker, so that they may avail themselves in the fullest measure of the benefits to be derived from the credit in an equal degree with those that are economically strong.

In conclusion we have to remark, with J. Conrad, that "the ripeness and the right conception of a nation as to its "economic problems are indispensable factors for the beneficial utilisation of Credit." The development therefore, of credit must, as a rule, be preceded by an appropriate economic education of the people, or, at least and necessarily, such education must follow closely on the heels of the development.

E. The Requirements for the Existence and Development of Agricultural Credit

The existence of Agricultural Credit, taken in its widest sense, presupposes certain conditions, without which there cannot be any mention of agricultural credit transactions in their up-to-date conception.

The main conditions may be synopsised as follows:—(*a*) The absence of detrimental limitations as regards the use of land, its exchange, and its indebtedness; (*b*) agricultural production carried on under modern advanced and, as a rule, intensive methods; (*c*) the existence of a properly conducted Land Register and also of a status *in re* real guarantees securing and facilitating the contracting of loans, or, at least, a co-operative organisation which enjoys full confidence; (*d*) legislation, legal procedure, methods of legal execution fully protecting the rights of the lender and avoiding protracted actions and chicanery; (*e*) the existence of a *status quo* inspiring confidence, as much in social as in economic life (private or public), and (*f*) the existence of a properly organised Agricultural Credit, liberally putting at the disposal of agriculture the required means.

In all these, the greatest importance lies in the deter-

mination of the interdependence of the development of Agriculture and the Agricultural Credit.

F. The Requirements of Productivity of the Agricultural Credit

The adaptation of credit (as regards form, amount, rate of interest, time-limits, guarantees, methods of granting and repayment, etc.) not only to the nature of the productive branch whose interests it aims to serve, but also to the specific object for which it is destined, as well as to the conditions of every description prevailing at a given place and juncture, is a basic requirement for the productivity of credit.

This principle is specially important in Agricultural Production, in which the conditions not only are totally different from those of other productive branches, but even in this very branch of agricultural production substantially differ from one another. As a matter of fact, in comparing various productive branches, we find that, with the exception of agricultural production, there exist several more or less considerable analogies between them, and particularly the great weight of the contribution of the person carrying on the enterprise in the work of their organisation and functioning.

The adaptation, therefore, of credit to the needs of each one of the aforesaid branches does not usually present great difficulties, and their being served by credit institutions not specialising in a given branch, or experienced in the transactions of any other branch, is not excluded.

In the same way the differences between enterprises of one and the same productive branch are of such a nature as not to differentiate between them, and it becomes quite practicable and advisable to have the whole branch served by one and the same category of credit institutions.

An exception might usefully be made in connection with long-term credit, which, on the other hand, may be granted by institutions of one and the same category (Mortgage Banks) to most of the productive branches.

On the contrary, agricultural production presents but few

analogies with the remainder of the productive branches. Its principal contributor is the physical factor (soil, climate, the plant or the animal) with which it is closely and indivisibly connected. It is also importantly affected by sociological conditions.

As regards the percentage of contribution of the various factors of production, this differs widely in agricultural economy, in conformity with the prevailing physical, sociological etc., conditions, also with the system of cultivation followed and the articles cultivated. Also, the subdivisions of each factor of production are more numerous than is the case with the other productive branches and the analogy of their participation in the agricultural enterprise more variable. Lastly, the combinations of the subdivisions of the three factors of agricultural production and the percentages of the participation in the productive labour are such and so manifold, as to make their classification even in large categories specially difficult.

The adaptation, therefore, of the credit to the special conditions of agriculture, at a given time, for its best and most complete service and development, presupposes necessarily not only the transacting of agricultural credit by institutions almost entirely occupied with it, but also a further specialisation up to the ultimate "molecules" serving for the canalisation of credit,[1] and the fullest possible scientific knowledge of things agricultural.

G. The Special Conditions of Agricultural Production as compared with those of other Branches of Production

There are several points on which the difference between Agricultural Economy and the others is a radical one.

(1) As a matter of fact, the manufacturer may increase his production practically to an unlimited degree, by simply increasing capital and labour.

This cannot be said with regard to the agriculturist, because he is under "physical limits" of production, preceded

[1] Co-operatives of Personal Credit, Co-operatives of Real Estate Credit, Co-operatives of Land Ameliorations, etc.

by " economic limits." In reality, technically, it is possible to obtain a great increase of the output of the soil (although not an unlimited one), but the increase especially of beneficial climatic elements meets with great obstacles and the frame of a similar increase is a narrow one. Before the limitation put by " Nature " there is the " Economical " limit for agriculture. That is to say, that the participation of capital and labour, over and above a set percentage, in the work of agricultural production, becomes anti-economic. It reacts as the working of the " Law of Diminishing Returns." [1]

To this law is attributed the cultivation of inferior quality land, because it becomes unprofitable to continue the intensification of the culture of an already cultivated surface over and above a set limit.

(2) Another difference we find in the phenomenon of " Differential Output."

Whilst in industry the differential output leads from expensive to cheap production, in agriculture the path followed is in the inverse direction. This is mainly due to the fact that here the extent of cost is but a " connexion " of fertility, mainly of " Nature." [2]

(3) Also, in opposition to the manufacturer, who, at the price of certain sacrifices, is in a position to adapt his production to new demands of the market,[3] usually in a short period of time, the agriculturist can only with difficulty adapt himself to new conditions and outlets for disposing of his produce.

(4) Again, whilst the cost of production of manufactured articles gives certain indications as to the price they may fetch on the market, the cost of agricultural produce represents but a secondary factor for determining their market value.

(5) The manufacturer can, at any time, and beforehand,

[1] *Vide* A. J. Boyazoglu & B. Ganossis, *Les bases scientifiques de la Loi du Rendement Décroissant en Économie Rurale et sa formule mathématique* (a communication made to the French Agricultural Academy); cf. Académie d' Agriculture de France, Vol. XVII (1931), Procès-Verbal de la Séance du 6 Mai 1931 (No. 14).

[2] *Vide* communication to the French Agricultural Academy already cited.

[3] An eventual change in the trade or financial policy of the State, changes in the requirements of the consumer, etc.

calculate the number of articles of a certain category to be produced within a specified period, by himself and other manufacturers, both domestic and foreign. The agriculturist, on the contrary, in view of nature intervening as the principal factor in the work of production, is unable to enter into similar calculations with any hope of even remotely approaching actuality.

(6) Lastly, the time required for the reproduction of capital in trade and industry is altogether different from that required in agriculture.

In fact, the merchant and the manufacturer are repeatedly renewing their circulating capital, within the same year, and this renewal of capital depends in many ways upon them. In agriculture, on the contrary, it is seldom that capital is renewed more than once within a year, and the agriculturist can exercise but a minor influence on the rapidity of renewal, the latter being, in most instances, dependent solely upon the laws and the caprices of nature.

We also remark great differences with regard to the fixed capital of industry and agriculture, and as regards the time required for their beginning to become productive, their interest bearing and repayment, as well as the special conditions of their utilisation.

All these differences lean unfavourably towards agriculture.

We need not enlarge upon the importance for agriculture of the foregoing remarks. They give a faint but sufficiently clear idea of the physiognomy of agricultural economics. They set limits as to the utilisable percentage of capital, and, as a natural sequel, of credit, in agriculture, they show the weak points in the transaction of Agricultural Credit and trace the path to be followed for its organisation and functioning.

One of the most serious problems in agriculture is that of guarantees. And it is easy to understand the bearing upon this problem of the foregoing remarks, especially those connected with previsions as to the articles to be produced and their prices. Much importance also attaches to the remarks concerning renewal of capital in agriculture,

terms of repayment, sinking of the agricultural loans and so forth.

H. The Specific Characteristics of Agricultural Credit

Agricultural Credit examined as a whole does not, at first sight, appear to differ substantially from other branches of credit, especially from Industrial Credit, for instance. If, however, we try to dissect the elements and characteristics of Agricultural Credit, we shall notice remarkable differences, especially in comparison with Real Estate Credit, with which, strangely, in some instances some people confound the Real Estate variety of Agricultural Credit. These differences are mainly due to its economic objective, and to the manner in which this end is attained, to its transactions under special agricultural conditions; and lastly to its specific legal characteristics.

(1) *Loans and the Guaranteeing of the Lender.*

Between Trade and Industrial Credit on the one side, and Agricultural Credit on the other, substantial differences exist owing to the position of capital in these branches of production.

That is to say, the merchant and manufacturer have their capital always at their disposal, the first under the guise of merchandise, and the second under the form of plant, raw material and industrial products. The liquidation at least of the goods (including also raw material and industrial products) is practicable, at almost any given moment, and more often than not without too great a sacrifice. The lender, therefore, is enabled, whenever he considers it advisable, to lay hands upon the warehouses of his debtor for securing his interests by effecting a sale, according to law, of goods which are easily saleable. This is not the case with the agriculturist. The latter contracts a loan and is supplied on credit with everything required for cultivation purposes; he is tilling his land, sowing and cultivating, he is fattening his beasts, and only after the

passage of months, sometimes years, does he see the materialisation of the saleable product of his work (cereals, fruit, meat, etc.). If, therefore, for any given reason (for instance, death or illness of the borrower) the lender wishes to reenter untimely into possession of the amount lent, this proves altogether impossible, owing to the fact that the money lent is found to be, either in the soil under the form of seed, manure, labour, plantations, land ameliorations, etc., or transformed into tools, implements, machinery and other articles used on the farm. If he should choose to proceed to a sale of these articles, their decreased value would endanger his guarantees.

From this standpoint the superiority of trade over agriculture is unquestionable.

(2) *Capital.*

As regards the requirements of agriculture in capital, they are enormous, far greater in their total than those of all other productive branches.[1] And this notwithstanding all the existing natural limitations as regards the utilisation of capital within a definite space and time when used in an agricultural enterprise.[2]

A difference in the forms of capital used in agriculture and in the other productive branches is also to be noted, so that in the Agricultural Credit we find branches altogether unknown in any other credit branch.[3]

(3) *Rates of Interest.*

It is well known that agriculture is not among the more profitable enterprises; naturally, therefore, it cannot bear the pressure of the high rate of interest easily paid by other productive branches. In consequence, one of the most difficult problems to solve in agriculture is that of reaching the lowest possible rates of interest. The question of low interest had no great importance at the time when capital utilised in agricultural enterprises was but small, but, with

[1] Cf. The Needs of Agriculture in Capital, pp. 28 sqq.
[2] Cf. Law of Diminishing Returns, p. 15.
[3] Cf. Categories of Capital in Agriculture, p. 26.

intensified cultivation, capital needs become greater and, consequently, the need for cheapness is self-evident.[1]

(4) *The Date of Maturity.*

The varied and exceptional conditions of agriculture impose for each specific case not only terms of granting of loans, but also special terms for repayment of these. So the Agricultural Credit, in its fullest meaning, comprises three main categories of loans: short-term, medium-term and long-term loans.[2]

(5) *The Canalisation of Credit.*

The business of Agricultural Credit demands a very dense network for canalising credit into the country, and, therefore, its transaction is not mainly effected directly, as is usual in Trade and Industrial Credit, but indirectly, special organisations being utilised as intermediaries.[3]

(6) *The Guarantees and the Destination of Loans.*

Lastly, with no desire to reduce even remotely the importance of guarantees in Agricultural Credit,[4] we must remark that their sufficiency, as well as in a general way the reliability of the person contracting a loan, cannot form (contrary to what happens with other branches of credit) the sole or the main presupposition for granting a credit.

In Agricultural Credit the first item to be considered is: how far the loan is going to be utilised for agricultural purposes, productively, and also how far a good utilisation of it is going to be made. The examination of the sufficiency of guarantees not only follows, but also weighs far less than the former considerations.[5]

[1] Cf. lower down, and especially p. 214.
[2] *Vide* lower: Distinctions in Agricultural Credit in conformity with its time-terms, p. 45.
[3] Cf. The Agricultural Co-operative Organisation as Contributor and Factor in the Canalising of Credit into the Rural Districts, pp. 78 and 215.
[4] *Vide:* The Bases on which Agricultural Credit is founded, pp. 57 sqq. and 214.
[5] Cf. lower: The Importance of Productive Utilisation of Credits, p. 214.

I. The Public Utility Character of Agricultural Credit and the Necessity of its being reinforced by State Aid

(1) *The Inferior Position of the Agriculturist from every Point of View.*

In agricultural production there is always a great uncertainty with regard to the expected results quite regardless of any efforts that may be made.

The agriculturist, therefore, is entitled to, and should enjoy from the sale of his products, a value corresponding, if not entirely to the sacrifices demanded for their production, at least not far off those required by the usual production conditions.

But this presupposes prices altogether regular on the market, or at least prices merely influenced, within regular limits, by the fluctuations of production and the prices of all other products on the international market, as also the complete elimination of fluctuations emanating from speculation. It is, however, self-evident that these things are practically unattainable, hence the disappointments so often experienced by the agriculturist when disposing of his products.

This being granted, he should at least be able to aspire to the advantage of easily secured credit on convenient terms. There should be a possibility for him to find the required financial means at such a price as not to render their utilisation unprofitable in any private branch of agricultural economy.

But, when considering the agricultural economy of the world, a number of factors appear which render this instance exceptionally rare.

(2) *Difficulties of Securing of Credits for Agriculture.*

We have already mentioned the limitations by which agriculture is bound by necessity with regard to the credit aiming at serving its interests.[1]

On the other hand, it is well known that credit in all its

[1] Cf. The Specific Characteristics of Agricultural Credit, pp. 18 sqq.

forms and under given conditions is invariably subject to practically the same laws, and the "Market of Capital" is, in substance, but one and international.[1] On this market all productive branches meet, in competition with each other, and all the producers in the world are represented there.

In this market the law of offer and demand rules supreme, and only he who is able to offer for capital the highest profit, united with sufficient guarantees, finds it easy to borrow.

In this common market the agriculturist, competing with other producers living under more favourable conditions than himself, either would of necessity undertake the burden of heavy interest and unbearable terms, or would have to abandon all endeavours for finding capital. And this, assuming an even value of guarantees for all branches of production, which, unfortunately, does not correspond to reality.

(3) *The Importance of Agriculture.*

On the other hand, it would be endeavouring to break through an open door to emphasise the importance of the contribution of agriculture to the national economy of any country and to the general social economy, also of the absolute necessity for putting at its disposal, at all costs, the means required for its advancement and development. Additionally, reasons of social peace and order, and often national reasons, call for the strengthening of the agricultural class, especially of the small-holder. And it is not possible to pass by these considerations without having to meet their grave consequences.

(4) *The Mission of Agricultural Credit.*

The superior meaning of the mission of Agricultural Credit has already and sufficiently been made clear. This mission represents the most effective organ at the disposal of present-day economic and social structure, for the application of all agricultural policy, for the rational shaping of the conditions of agricultural production, for the direc-

[1] Cf. Jouzier, *Économie Rurale*, p. 469.

tion of agricultural productive work, for the sufficient and appropriate supply of the world with the requisite agricultural products, for general comfort and utility.

But the social mission of the credit in the rural districts is not of a lesser value. Properly handled, it may contribute decisively in the shaping of society of the rural districts and of the conditions of landed property in conformity with the requirements of right and properly understood social interest, and this in a peaceful and evolutionary manner, which would exclude the ruinous economic and social consequences of upheavals.

There is, therefore, no other problem of a similar general nature which requires more attention, within the limits of the respective countries, as well as within the international field, and no problem that deserves more sacrifices to reach its solution.

These considerations have prompted all civilised countries — including even those bearing mainly an industrial character — strongly to intervene in favour of Agricultural Credit.[1]

[1] *Vide* lower: The Agricultural Credit Policy, Chapter X, pp. 202 sqq.

CHAPTER II

CAPITAL IN AGRICULTURE

A. Capital Needs in Agriculture

For the exploitation of land abundant liquid capital is the first requirement. The agriculturist requires seed, manure, supplies of remedies for preventing and warring against the various diseases of plants and of live-stock, expenses for cultivation, cattle-feed, as well as the necessaries of life required for the upkeep of himself and his family. The demand for capital for these current exploitation requirements, as rightly remarked by Philippovich,[1] increases daily, so long as there prevail in agriculture the principles that govern money transactions.

Apart from the above, the agriculturist requires live-stock, implements and machinery; and at times the carrying out of improvement work is necessitated. These all demand considerable capital placed on medium or long-term periods, if not continuously, in the agricultural enterprise.

Any increase in this branch of capital is also, or at least should be, linked up with general progress, and especially with the progress of agricultural science.

As far as liquid capital is concerned, the scarcity of this in general is very noticeable, and affects accordingly both agriculture and the agriculturist. As regards land ameliorations, buildings, plant, etc., there are very few agriculturists disposing of the requisite substantial means for these, and still fewer who have succeeded in completing them.

Therefore, most agriculturists find it unavoidable to have recourse to credit.

[1] *Vide:* Philippovich, *Politique Agraire*, p. 305.

B. The Credit Requirements of Agriculture

On the other hand, nobody can vouch that even those who under regular conditions are in a position to meet their cultivation needs out of their own funds — often the result of savings and sacrifices of every description — will not find themselves required to face extraordinary needs, following God's wrath (the destruction of the crop by disease, drought or floods, or loss of cattle through epidemics), or by reason of a market crisis which does not permit the immediate marketing of produce after its harvesting at anything but ridiculous prices.

In the first instance, the recourse to credit would give the agriculturist the means for continuing his work, and, sometimes, even for making good, to a certain extent, the loss from a disaster—by sowing, for example, spring wheat where icy weather or floods have destroyed his winter wheat —and would afford him the occasion to recuperate financially. In the second instance, credit would allow him to keep in store his produce, for a set time, in order to dispose of it under better conditions and with greater ease.

At the same time, progress in conditions of agricultural production, due to the consumer's requirements as well as to the advance in agricultural science, are daily creating new needs (for example, for acquiring machinery, or effecting improvements or other works)— even for those agriculturists who were considered to have reached self-sufficiency on this point. No agriculturist, therefore, can be independent of a resort to credit.

The credit requirements of the agriculturist are reaching vast amounts which he must secure under conditions appropriate to the needs of an agricultural enterprise. Such conditions cannot well compare with those prevailing in respect of other productive branches.

The problem, therefore, of securing the cover by Agricultural Credit of the daily multiplying and already exceedingly high requirements of agriculture, represents the most serious and difficult of all the problems which agricultural production is called upon to solve.

As regards the forms of Agricultural Credit, and the sums required for the service of each one of these, they are defined by the categories of capital employed in agriculture and the respective needs of each form at a given time.

C. Categories of Capital in Agriculture

(1) *The Classification prevailing.*

The usual categorical division of the capital required in agricultural economy is the one based on the possibility, or impossibility, for the capital to move freely without this mobility resulting in a loss of value, or in disturbance of the services rendered.

On this basis most rural economists[1] found their classification of agricultural capital. It is, therefore, clear that, in substance, agricultural economy follows the division of capital established for it in political economy, viz.: Circulating and non-circulating Capital.[2]

Circulating capital is the one renewed completely, and is not to be used except in one sole production, whilst non-circulating is only partially utilised in each production, and, consequently, may serve for a series of productions.

Competition occurs usually directly between the former, whilst with the latter it acts indirectly.[3] Among the first are included as a rule: the Circulating Agricultural Capital proper and the Live and Ordinary Stock.[4] The second, usually called Real Estate Capital, comprises Land, Buildings, Permanent Ameliorations and Tree Plantations.

(2) *Criticism of this Classification and Modification proposed.*

This classification is not sufficiently appropriate, inasmuch as it does not fully correspond to things agricultural. Its insufficiency must be attributed to the fact that it is mainly based on the nature of agricultural capital, and it does not pay any attention to its object and

[1] Cf. Bordiga, *Trattato di Economia Rurale*, I, pp. 61 sqq., and pp. 168 sqq., Jouzier, *op. cit.*, pp. 84–87, etc.

[2] Cf. Gide, *Cours*, etc., I, pp. 191–4; Pareto, *Manuel d'Économie Politique*, pp. 435 sqq.; Walras, *Éléments d'Économie Politique Pure*, p. 177, etc.

[3] Through the transportation of their products; or the removal of consumers (*Vide*: Pareto, *op. cit.*, pp. 435 and 437).

[4] *Cheptel Vivant et Cheptel Mort.*

designation. We, therefore, find it more advisable to adopt another classification according to which agricultural capital is divided right from the beginning as follows [1] :—

(a) *Circulating Capital* — comprising: (*a*) labour and, generally, wages and salaries, (*b*) expenses of administration, (*c*) expenses of management, (*d*) purchase of seed, manure (of immediate assimilation) and chemical products for combating plants' and farm animals' diseases, (*e*) taxes, (*f*) the upkeep of live-stock and ordinary stock and of supplies of every description.

This capital, as regards its very nature and utilisation in the enterprise, is a circulating one, and it is the most productive.

(b) *Consolidated Means of Exploitation Capital.* It comprises mainly: the Live and Ordinary Stock including any article or capital which, although movable in substance, forms, so to speak, an indispensable permanent factor for the working of the estate, in view of its economic designation.[2]

Although movable by nature, these must be considered as immobilised, owing to their designation in the agricultural enterprise.

In these, capital is being actually immobilised over a long period of years, and its mobilisation is not attainable over and above the prescribed per annum limit, without producing a loss or a disturbance in the conduct of the enterprise.

We have, lastly:

(c) *Real Estate Capital*—comprising five main categories, viz.: (*a*) the land itself[3]; (*b*) buildings serving for the working of the estate[4]; (*c*) Land Ameliorations[5];

[1] *Vide*: A. J. Boyazoglu, *Contribution à l'Étude de l'Économie Rurale*, etc., pp. 68 and 69.

[2] As known, live-stock is composed of farming animals, and ordinary principally of machinery, implements, etc.

To this category belong: (*a*) the slowly assimilated manure (farm dung), (*b*) the stable litter permanently lying on the estate, (*c*) seed produced on the land for the Estate's own requirements (excluding seed purchased).

[3] As superficies, and means for supporting plants, as bearer of feeding substances and as means for the utilisation of the physical elements, *i.e.* heat, light, air, water.

[4] Offices and dwellings for the personnel, warehouses, stables, pigsties, possible engine-rooms and machinery sites for manufacturing processes of products of the estate.

[5] Works for draining, irrigating, protecting of the estate (from a possible flood, etc.), road-making, communication works, hydraulic works (pits, etc.), fencing, electric power houses, replanting of woods, etc.

(*d*) Ameliorations mainly agricultural,[1] and (*e*) Tree Plantations.[2]

This capital is immovable, not only on account of its economic designation, but also by its nature.[3]

Any eventual attempt at removal would mean, at least, partial destruction. The most important result of the incorporation of the said capital in the land is the impossibility of its reproduction [4] and its dependence upon the law of Diminishing Returns.

D. The Evolution of Requirements of Capital in Agriculture

The world-wide needs of agriculture for capital have not always and in all parts been the same. Generally speaking, we may say that when and wherever the economic phases of "home" and "rural economy" still prevail, the problem is practically non-existent. It presents itself in substance in the phase of "urban economy"; it is accentuated in "popular economy" and it acquires all its significance in "world economy." [5]

(1) *Pre-War.*[6]—The development and intensification of agriculture during the last century, as a result of increased consumption requirements, and the progress of science, have created, with lightning quickness, conditions of land cultivation far beyond those formerly existing, as well as an agricultural economy in which capital is called upon to take an exceptionally prominent place.

Colonisation and Agrarian Reform—the outcome of political events and of up-to-date social conceptions on the part of the State—have also increased the already large needs of agriculture as regards capital. On the other hand,

[1] Comprising ameliorations of the soil and of the buildings in a small way, amending or improving the soil, radical changes in cultivation and specified plantings.

[2] Orchards, olive groves, etc.

[3] Cf. Pareto, *op. cit.*, pp. 435–6.

[4] Cf. Rodbertus, *Kreditnoth des Grundbesitzes*, pp. 186 sqq.

[5] Regarding the phases of economic life, we are mainly following Bücher (*Vide*: Bücher, *Die Entstehung der Volkswirtschaft*, I, p. 83).

[6] Cf. also: Genesis and Evolution of Agricultural Credit, pp. 3 sqq.

in countries of an exceptional industrial or other development, where industry, urbanism and a decreasing birth-rate have considerably reduced labour in the rural districts, this reduction has been an additional incentive towards the increase in requirements for capital, mainly due to the necessity of substituting machinery for manual labour.

(2) *The After-War needs.*—The Great War, and its direct and indirect consequences, brought about an increase of the intensiveness and the extent of the above mentioned causes which contributed much to the swelling of the volume of the pre-War needs of agriculture with respect to capital. At the same time, new factors and conditions were created resulting in a further unavoidable increase of capital requirements, and to such an extent that the problem has arisen, in all its importance and weight, not only within the boundaries of the various countries, but also internationally.[1]

(a) *The General Confusion in Agricultural Production.*

We must first emphasise the general confusion prevailing in agricultural production when the Great War ended.

We notice, on the one hand, a neglect — and in some instances a total abandonment — of cultivation, or, at least, its continuance in an inappropriate manner.[2] On the other hand, we notice a preposterous swelling of the volume of certain branches of agricultural production [3] or of certain cultures [4] to the detriment of others.

This exceptional development has been the result, in some instances, of distinct needs of cultivation,[5] and in others, of the big demand for certain products during War-time. But these branches of agricultural production, as well as the cultures mentioned, were not always fully adapted to the physical and economic conditions of the district. Hence a decrease in output, a lowering of quality and an increase

[1] Cf. The International Agricultural Credit, pp. 225 sqq.
[2] Very extensive utilisation of mechanical means, etc.
[3] Cattle rearing, for instance.
[4] Food-stuffs.
[5] Lack of sufficient labour.

of production cost. Generally the productive forces were lowered and became inactive, and gave rise to general depression. But in order to revert to the physiological state of things, good-will, good intention and efforts were not sufficient, and the influx of capital into agriculture became an imperative postulate.

(b) *The Reparations and the Replacement of Capital destroyed.*

On a more or less large scale in certain large districts in various countries private capital in agriculture has been, in some or in all its shapes, destroyed, either partially or totally, directly or indirectly, owing to the War.

The loss of current working capital was effected either directly, by the taking over by the authorities, by pilfering, by incendiarism and so forth, or — the part in cash — by reason of money fluctuations. The destruction of the Consolidated Means of Exploitation Capital, apart from War-time measures mentioned above, resulted from its remaining unutilised for a long period, or from its not being utilised in a proper way.[1] Lastly, with regard to Real Estate capital, the destruction concerned not only the buildings, but also the land itself, in some instances, to a considerable extent. No ameliorations were carried out, on the contrary, even the conditions prevailing before the War were in some cases totally destroyed, either owing to the War operations, or to abandonment for a period of years, or to its use in an inappropriate way.

In the said districts, therefore, the replacement of the vanished capital to the extent of the destruction suffered became necessary. There arose two exceptionally serious problems, viz. the problem of reparations concerning immovable property ruined, and the problem of replacing the movable capital thus destroyed. For certain countries[2] these reparations have for a long period absorbed a considerable part of their available means. But in any case the reparations demanded enormous sums of capital.

[1] As regards machinery, its being handled by non-skilled or by evil-intentioned labour.

[2] France, Belgium, Poland, Italy.

(c). *Colonisation.*

As regards colonisation, the amounts set aside for this, before the War cannot even remotely be compared with those which proved necessary after the War.

To this, the new state of things as shaped by the War-time period and the exchange of populations has mainly contributed.[1]

(d). *Agrarian Reform.*

Agrarian Reform also presents itself, since 1920, in far greater prominence, owing to the needs in connection with colonisation, and also in view of post-War social conceptions.[2]

Substantial capital, therefore, was required for the settlement and strengthening of this multitude of new owners, for rendering it possible for them to work the lands granted to them, and still more important sums will be required in the future, because nowhere has the work of Agrarian reform been fully accomplished, and there are countries where this work has only just been started.

[1] Taking into consideration the proportion of surface and population, the first place in this respect belongs to Greece, which has, according to a lowest estimate, spent upon interior colonisation, beginning from the first Balkan War (1912) and up to the year 1930, at least £33,839,650, without taking into account the value of land and dwellings utilised for the same purpose resulting from the exchange of populations (Turks and Bulgarians), and the expropriated lands. The biggest part of this expenditure was in connection with agriculturists (*Vide:* A. J. Boyazoglu, *Contribution à l'Étude de l'Économie Rurale de Grèce d'après Guerre*, pp. 55–56).

[2] Among European countries, 14 have promulgated Agrarian Reform. These countries total 71 per cent. of the whole surface of Europe and 57 per cent. of her population. Up to the beginning of 1929 there were expropriated in favour of the agriculturists: 986.322 hectares of Agricultural land in Czechoslovakia (cf. Communication of Dr. Jan Vozelinek to the XIVth International Agricultural Congress, in "Actes" of the latter, Vol. II, p. 150), and in Rumania over 6.008.000 hectares (cf. *Ibidem*, p. 18, Communications of Professor A. Nasta).

In Poland, from the beginning of 1919 up to the end of 1927, the parcelling of about 1.391.000 hectares has been realised (*Vide:* Inst. Inter. d'Agr., *Bulletin des Renseignements Economiques et Sociaux*, 1930, pp. 217 sqq.). In Lithuania, up to January 1928, there were 430.000 hectares expropriated (*Vide: Ibid.*, 1929, p. 288), and in Latvia, during the same period, 3.680.000 hectares, of which some 1.655.000 were arable land (*Vide: Ibid.*, 1929, p. 449). Lastly, in Finland, from 1920 to 1927, some 96.587 tenant farmers have become owners of the land (cf. Kyösti Haataja, *Land Reform in Finland*, Bank of Finland, No. 12. Helsingfors, XII, 1928, cited in: Inst. Intern. d'Agr., *Bulletin des Renseignements Economiques*, etc., 1929, p. 370).

(e) *The Decrease in Manual Labour in Rural Districts.*

In many parts the scarcity of agricultural labourers, which was felt already before the War, could not but increase after the War, following on the urbanisation (rural depopulation) and the decrease in the birth-rate, which reached proportions unknown heretofore. Wherever this has occurred, appropriate capital has been demanded mainly for the increase of mechanical means of cultivation.

(f) *The Damming of the Emigration Flow.*

On the contrary, in other countries characterised by their exceptional increase of population, the increased demand for agricultural capital was created by the obstacles put in the way of emigration. As a matter of fact many countries which before the War were open to the entrance of a multitude of immigrants, have, since the War, decreed great if not altogether prohibitive restrictions. It became, therefore, necessary to arrange for settling the surplus population within the boundaries of their own lands, which required respectively an intensification and increase of production in order to use the labour and to afford a living to their population.[1]

(g) *The Increase in Taxation Burdens.*

To the already great indirect and direct taxation of the contemporary state, due to the needs of government and military preparation, during the post-War period were added for most countries the needs for amortising their War-time debts and for meeting the demands for social welfare and assistance, which emanated partly from the War-time itself, and partly from new general conceptions prevailing after the war.

These new sacrifices demanded from the agriculturists, presuppose also a proportionate increase of agricultural capital.

[1] Cf. Inst. Intern. d'Agr., *Documentation*, etc., p. 225.

(h) *The Intensifying and Perfecting of Methods of Cultivation.*

The general increase in demand of capital in agriculture has been intensified, to a greater extent after the War than was the case before, by the generally realised intensification and perfecting of cultivation, developed, on the one hand, by efforts to increase production in every country, in order to obtain a prompt healing of the direct or indirect war scars and to satisfy the ever-increasing demands of the market,[1] and, on the other hand, by the progress of agricultural science.[2]

(i) *The Rise in Money Value and the other Factors.*

The rise in money value (interest rates), also, wherever this has taken place, has proved, especially in the beginning, unfavourable as regards the sufficiency of agricultural capital, and this effect was as much a direct one, owing to the general scarcity of capital, as an indirect, in view of the devaluation of agricultural produce.

We could put forward a long supplementary list of such factors. But we fancy this gives an adequate picture of the situation.

E. The Finding of Requisite Capital

(1) *The old Credit Institutions in the Rural Districts.*

There can be no question of covering the immense post-War needs in agricultural capital by the institutions which transacted pre-War agricultural credit. The capital at their disposal, even at that time insufficient, has in many countries disappeared owing to money devaluation, or following complete ruin or the inability of debtors to have their loans repaid.

It had, therefore, become necessary to find other sources of capital. There were three of these, apart from state assistance: the gradual savings of the agriculturists themselves, recourse to the national money market and the

[1] Cf. Inst. Intern. d'Agr., *Documentation*, etc., p. 246.
[2] *Vide*, in connection, also: pp. 28 sqq., The Requirements in Capital of Agriculture.

market of capital, and, finally, the seeking of capital abroad.

(2) *Savings and the Local Money Market.*

The simplest solution would probably have been the personal saving by the agriculturists of at least the means required for putting in order and organising the private economy of agriculture on the new foundations laid by the prevailing new conditions.

But, apart from the urgency for agricultural production to conform to the new situation created—which urgency is incompatible with this solution of the present problem—the conditions for the disposal of agricultural products during the last years have proved so unfavourable—owing to the fall in their price—as to exclude any hope whatever in this direction.

Further, the general conditions prevailing in the inner money market of European countries have been, and continue to be, anything but favourable. Continual fluctuations of the value of the national money of many such countries during the War and the period immediately following the War, and particularly fluctuations with tendencies of decrease, have prevented the local money markets from growing and becoming capable of meeting the capital requirements presented, at a given juncture, by the local production. The scanty disposable means could not find their way to the rural districts at a time when other productive branches were, and are, always ready to absorb them on conditions more favourable for the capital.

(3) *States.*

On the other hand, the states, whether they took part in the War or not, suffered, as a rule, so much from it that for a long time to come — especially among those requiring more than any other a strengthening of credit for their agriculture — they would perforce be altogether absorbed by the work of setting their finances in order, so that there can be no question of their fully meeting the credit requirements of agriculture in their countries.

(4) *The World Market.*

Most of the countries, as a consequence, had no other recourse but the international money market. Nevertheless, even for that there are set requirements and presuppositions [1] which but rarely exist as a fact.

For most of the countries, therefore, the problem of securing even the means required for putting in order their current agricultural needs remains unsolved, not to mention the capital required for intensifying or rationalising agriculture, which is now necessary to satisfy consumption, which becomes daily more hard to please as regards the quantity of many articles and, generally, the quality and cost of the products. Thus, day after day, the demand for capital becomes more pronounced and more settled in agriculture.

F. Relations between Agricultural Credit and Money Market

The credit requirements of agriculture are independent of those of commerce and industry, whilst, on the contrary, the offering of capital to agriculture to meet its requirements is absolutely subject to the conditions prevailing on the money market and the market of capital, which are mainly influenced by trade and industry and, eventually, by the remainder of the branches of production. This is true especially as regards Real Estate Credit.

The transacting of Real Estate Credit is based, to a considerable extent, on the issue and disposal of bonds. But, during the booming of industry (*Hochspannung*), it is anything but easy, and sometimes altogether impossible to place bonds, which makes the institutions concerned with the emission of bonds unable to satisfy the needs of agriculture, inasmuch as they concern the Real Estate Credit. This is proved by observation of the auction sales of agricultural estates, the number and the extent of which increase during the periods following an industrial boom.

As a matter of fact, if we study the pre-war fluctuations of prices of bonds yielding a set and stable interest, we

[1] *Vide* lower, pp. 37, 233, etc.

shall notice that during periods of industrial boom they reach the lowest ratio, whilst in periods of depression their fluctuations keep continuously on the edge of the highest level, wherever they do not reach this level.

But even when the disposal of agricultural mortgage bonds is practicable during a boom period, the agriculturist has no interest to go in for bond loans at such a time, because of the aggravation resulting from these bonds being sold at a low price with proportionate increasing of the interest for him.

A period of industrial depression is the most appropriate time for the contracting of such loans.[1]

We must, however, in this instance discriminate as regards the strength of the after-effects of an industrial boom and, especially, with regard to Real Estate loans during the said period, between the Banks, the Real Estate Credit Co-operatives, the Savings Banks and the Public Utility Institutions.

The banks grant very few mortgage loans when conditions prevailing on the market are adverse to the emission of the respective bonds, and utilise the cash at their disposal for keeping up the price of their own obligations. As regards the Real Estate Credit Co-operatives, they cannot very well refuse to grant such loans to their members, irrespective of all the difficulties they are bound to be confronted with.

Lastly, the Public Utility Institutions and the Savings Banks represent, during times of difficulty for the disposal of bonds, the main source of medium and long-term agricultural loans. The dynamics and potentiality, however, of the latter — especially of the Savings Banks — is found to be reduced during periods of industrial boom, owing to the considerably depleted deposits while it lasts.

As regards the short-term agricultural credit, the effects of industrial super-activity are usually diametrically opposed to those affecting Real Estate Credit, as far as the number and the amounts of the contracted loans are concerned. The matter is easily explained. When the contracting of long-term loans is not easy, when the conditions of grant-

[1] Cf. Institut für Konjunkturforschung, *Die Agrarkredite*, pp. 7 sqq.

ing these are heavy, when high rates of interest prevail, the agriculturist is able to obtain, on normal conditions, short-term loans pending the improvement of conditions for securing long-term ones. Thus he settles his difficulties for the time being, without tieing himself up for the future on unfavourable terms difficult to bear.

Recapitulating, we have to remark that during the development of industry (*Aufschwung*) and the industrial boom (*Hochspannung*), there is a decrease in long-period loans and an increase in short-term ones, proportionate to the development; and, during industrial depression periods, a decrease in short-term loans in favour of long-term loans.

G. Recourse to Foreign Markets

When the local money market, or market of capital, is unable to provide agricultural credit with the requisite capital, the necessity of turning to markets abroad becomes unavoidable. Before doing so, however, it is necessary to examine how far the political, social, common law and economic conditions prevailing in the borrower country are such as to enjoy the confidence and to attract the interest of foreign capital.[1]

The existence of a simple and stable legislation is required, so that its practice can be easily followed, also of quick, sure and inexpensive procedure; further, of a simple mortgage status being clear and stable, inspiring full confidence, of easy application and inexpensive in itself. Lastly, it is also required that the credit institutions of the country to which the loan is granted or through which it is negotiated, shall present all the guarantees of a good administration of the loan.[2] All the above are necessary provisions, the lack of which renders the foreign assistance unattainable, or at least unprofitable.[3]

For the countries, therefore, where the development of Agricultural Credit cannot base, or maintain itself, on those

[1] Cf. Stephanidi, *The Influx of Foreign Capital*, pp. 29 sqq.
[2] *Vide* also lower, *in extenso*.
[3] Because the insurance premium added to the interest proper would raise the latter to a level which Agriculture would not be able to pay.

means only that local capital is able to offer, nothing remains but to use every endeavour to create, within the bounds of possibility, the requisite favourable conditions which will make foreign help not only attainable but available under terms which make profitable the contracting of loans.[1]

[1] Cf. below: The Unification of Legal Guarantees connected with Agricultural Credit, p. 245, etc.

CHAPTER III

THE ORGANISATION AND THE FORMS OF AGRICULTURAL CREDIT, AND THE AGRICULTURAL CREDIT TRANSACTIONS

A. ORGANISATION OF AGRICULTURAL CREDIT

(1) *Some Introductory Notes on Banks.*

In the commerce of capital the banker plays the same part as the merchant in the exchange of goods.[1]

In the beginning bankers were simply money exchangers, viz., they were transacting the commerce of money. The modern banks [2] are credit institutions, having as their chief object the regulation of the circulation of capital.

A bank concentrates disposable capital and diverts it to where the requirements of production call for it, in order to make such surplus capital productive. This is the work carried on by banks, certainly against payment for services rendered. But these services are so important that their remuneration is considered altogether justified, provided it does not overstep certain fixed limits.

The first banks appeared in Italy at the beginning of the fifteenth century, in Venice and Genoa, cities in which commercial life had reached its acme.

The expansion of banks follows in the wake of the progress of production and trade. The creation of big banking organisations corresponds to important landmarks in the general evolution of production and trade. The history, therefore, of banks is linked with the history of both of these.

The increase in the numbers of banks established was followed by their specialising in a given line and also by their

[1] Cf. Gide, *Cours*, etc., I, p. 529.

[2] The name " Bank " is traced back to the Italian word for it, which meant the tables used in Italy by the first bankers — the money exchangers — for placing on them their coins and money.

transacting other styles of business. Regardless of this, credit transactions remained their basic business.

(2) *Varieties of Banks, especially in connection with their transacting Agricultural Credit.*

(*a*) In conformity with the business transacted by the various banks, they are divided into three main categories: Credit Banking Institutions, Mortgage Banking Institutions and Banks of Issue.

1. The Credit Banking Institutions, or Deposit and Discount Banks, usually transact all active and passive credit operations, but are mainly occupied in deposit and discount transactions.

Apart from this, they are open to several other branches of business, namely, they accord loans under the form of current accounts, grant advances against pledges, establish or partake in industrial, mining and other enterprises of every description, undertake the safe-keeping of values and titles, and carry on all connected transactions (collect dividends, follow up drawings, etc.), effect payments from one town to another, or from country to country on the order or for the account of their clients, effect clearances, etc.

The contribution of these banks to the work of production is of exceptional importance, because, thanks to them, there is attained on the one part the concentration, and on the other the diversion of savings (transformed into capital) to the producer.[1]

The organisation of these banks is of especial interest to us, because many of the methods employed, as far as their organisation is concerned, are also applied in transacting Agricultural Credit operations. On the other hand, instances are not lacking when Agricultural Credit, especially for current exploitation, is granted by ordinary credit banking institutions.

2. The Mortgage Banks concern themselves with the granting of loans against Real Estate mortgage securities.[2]

[1] Cf. Pareto, *op. cit.*, p. 457, and, more generally: Courcelle-Seneuil, *Les Opérations de Banque*, pp. 168 sqq.

[2] Cf. Courcelle-Seneuil, *op. cit.*, pp. 312 sqq., and Gide, *Cours*, etc., I, pp. 503–4.

But, more usually, we call by this name those of the mortgage banks that issue Real Estate mortgage debentures or other, similar titles. These titles afford them the main portion of capital required for their operations, as against the ordinary credit institutions, which base themselves on deposits. It is true that the Land Credit Institutions do not refuse to receive deposits also, although they can utilise them only in a rather limited way in granting revokable loans, and, mainly, in placing these deposits on short term.

Usually the State lays down certain strict regulations with regard to these institutions, and they are under fixed obligations as to the guaranteeing of the emission of bonds, and for other reasons of a general nature.

From the Agricultural Credit standpoint, which interests us, mortgage banks call for exceptional attention, because most of them transact, concurrently with the urban Real Estate credit, the business of agricultural Real Estate credit and often, too, the Ameliorations credit. Also the existing differences between the ordinary mortgage banks and those specialising in agricultural Real Estate credit and Ameliorations (land and specifically agricultural) credit transactions are very slight,[1] at least as regards the basic lines of their organisation and working.

3. We have, lastly, the Banks of Issue, which are destined for the emission of notes. In order fully to cover their security, legislation distinctly sets forth the branches of transactions these are authorised to carry, and also sets great limitations to their activity.

Generally, it may be noted that long-term operations—consequently, Agricultural Credit operations—are altogether incompatible with the nature and designation of the banks of issue, because, if allowed to grant such credit, their capital would become immobilised, and such immobilisation would render them unable to meet their obligations.

Nevertheless, the banks of issue have a certain interest in respect of Agricultural Credit, owing to their influence in regulating, within bounds, the level of the discount

[1] *Vide* below: The Organisation of Agricultural Mortgage Credit, pp. 95 sqq; also The Organisation of Ameliorations Credit, pp. 148 sqq, and The Organisation of Real Estate Agricultural Credit, pp. 128 sqq.

rate, the influence of which decides—as a general rule and within certain limits—the level of the interest charged upon agricultural loans.[1]

(*b*) But the specialisation of banks is forging ahead, and in conformity with the economic classes whose interests they serve, they are being divided into: (1) Commercial, (2) Industrial, (3) Agricultural, (4) Popular, (5) Land Banks, etc.

The first of the two mentioned (Commercial and Industrial Banks) are usually formed as Legal Person Institutions of Private Law.

In the organisation of Agricultural Credit an exceptional place appertains to the Co-operative Banking Organisation.[2]

(3) *Some Other Remarks.*

Individuals have never ceased transacting credit operations, under all their guises; nevertheless, it is very seldom that we encounter them with a systematic banking organisation. With very few exceptions we have here the case of simply placing capital.

In many instances also even Legal Persons of Public or Private Law transact credit operations simply for the purpose of profitably placing disposable capital in their possession, without credit operations being their main object.

It must not be overlooked that banks specialising in transactions of any one of the aforementioned categories of credit frequently undertake also operations of other kinds, and, sometimes, operations which are not in conformity with their main object. Thus, for instance, we meet with banks of issue which are carrying on long-term placing of capital, or ordinary credit banks directly interested in industrial or mining enterprises aiming at profit.

These unscientific instances have led the various states strictly to limit the scope of operations for the various

[1] Concerning the influence exercised by the banks of issue on the discount rates *vide*: Pareto, *op. cit.*, pp. 457–8; also Gide, *op. cit.*, I, p. 564 sqq. And regarding banks of issue in general: Kisch and Elkin, *Central Banks*, especially the first part up to p. 155, and Courcelle-Seneuil, *op. cit.*, pp. 214 sqq., 538 sqq. and 555 sqq.

[2] Vide below, pp. 77 sqq., 97 sqq., 103, etc., and especially pp. 189 sqq.

categories of banks, of which mention has been made elsewhere.

(4) *The Centralising Tendencies of the Banks.*

As with commercial and industrial enterprises, of late, among the banking institutions there is a noticeable tendency towards centralisation in the hands of a few but strong financial organisations.[1]

This is due to: (*a*) greater prestige and confidence presented by big and strong organisations, (*b*) better conditions for granting loans, owing to the expanded business turnover, (*c*) the facility offered by an extended field of operations to canalise each time the surplus capital in a certain locality to a locality experiencing the need for it, and (*d*) the possibility of attaching to the administration of the big banks persons most suited for the purpose by remunerating them sufficiently.

Big banks offer great facilities not only to production, but also to the public in general (by effecting payments, opening of current accounts, safe-keeping of titles and values, etc.). First and foremost, however, they are of great importance as they are in a position to render economic life more stable and safe in general. Lastly, their services to the State are very often invaluable (National Loans, etc.).

Naturally, they do not, as a rule, offer their services and facilities in a disinterested manner. The difference between credit and debit interest of current accounts, the commission charged, and the dues and expenses collected from their clients, although in appearance non-important, are in reality very often excessive. Nevertheless, we cannot even remotely compare the charges, sometimes even the exploitation, of the big banking institutions with that of the small banks, and especially of former individual bankers.

In conclusion, we cannot pass by the evil often created for a country by extremely strong banking institutions, when they manage to concentrate in their hands the direction of the economic life of the country, sometimes completely

[1] Cf. Ansiaux, *op. cit.*, I, pp. 361 sqq.; also Gide, *Cours*, etc., I, pp. 532 sqq.

absorbing it — when they bear the character of a profit-seeking enterprise—and in other instances through their intervention in the social and even in the foreign policy of the country.

In the organisation of Agricultural Credit, centralisation appears under various forms, and is possessed of the highest importance.[1]

B. The Forms under which Agricultural Credit appears

Agricultural Credit appears under various forms, in accordance with: the nature of the lender or borrower, the object of the loan, its duration, mode of repayment, possibility of revocation or otherwise, its disposal for productive or non-productive purposes, its general designation in the enterprise, the objects aimed at by the credit, the nature of the guarantees, the more general designation of credit from a social view-point, etc.

(1) *In Relation to the Lender.*

If we take the lender as criterion, Agricultural Credit is divided into Private and State Agricultural Credit. The former is, in some instances, purely a banking operation, when the lender is a private bank of the usual character, in other cases—a co-operative institution. Very often it is only a case of ordinary placing of capital in agriculture. In this instance, be it a bank, an insurance company, or a private person, there cannot be any question of a real Agricultural Credit transaction, but simply a case of profitably placing capital. As regards the State Agricultural Credit, this is transacted through the medium of state banks already established and transacting other forms of credit, or specially created for the purpose. Or it is granted directly by the State. Nevertheless, there are also intermediary or mixed situations, viz., the granting of Agricultural Credit by semi-State banks or organisations, or even by private institutions subsidised by the State.

[1] *Vide:* below, and especially pp. 192 sqq.

(2) *In Relation to the Borrower.*

In accordance with the nature of whom it is being granted to, Agricultural Credit may be public or private. It is designated as public whenever it is granted to the State, to municipalities and communities and, generally, to public legal organisations, for the purpose of being utilised, directly or indirectly, for undoubted agricultural objects, and as private whenever it is granted to private persons or private legal organisations.

(3) *In Relation to the Object of the Loan.*

Agricultural loans are granted in cash, in bonds and similar titles, or in the form of agricultural implements, seed, manure, live-stock, machinery, etc. Thus we have three forms of Agricultural Credit corresponding to the aforesaid three types of loans, viz., Agricultural Credit in ready money, in titles and in kind, according to the form presented by the object of the loan.

(4) *In Relation to the Duration Term.*

With regard to duration, we distinguish: Short-term Agricultural Credit, Medium and Long-term Credit. The time limits of each category are not definitely delineated nor in the same way, but it may be said that usually the short-term Agricultural Credit comprises a duration of several months and very seldom exceeds one year; the medium-term does not exceed a period of five years or ten years, and the long-term credit exceeds, in any case, the limit of ten years.

As regards the maximum limit for the latter, it differs greatly in various places and countries, and in conformity with the object aimed at.

Speaking generally, the period of time for which Agricultural Credit is granted is a calculated "connection" of the object and the conditions under which it is going to be utilised.

Thus, if the agriculturist intends disposing of the loaned sum for increasing the mobile capital of his agricultural enterprise for current cultivation needs, or the purchase of seed, fertilisers, chemicals, or cattle-feed, then a short-

term loan, to be repaid usually during the next season of harvest, covers his requirements. On the other hand, the purchase of live-stock, machinery or implements demands more extensive time terms, and the medium-term credit is, as a rule, most appropriate. Lastly, if it be the agriculturist's intention to carry out on his land substantial improvements, or to extend its space to a considerable degree, he must avail himself of a long-term credit.

(5) *In Relation to the Mode of Repayment of Loans.*

The mode of repayment of loans presents Agricultural Credit under two altogether different forms, in accordance with the system to be followed. There are fixed categories of agricultural loans repayable at the expiration of the due date for which they have been granted, by one single payment, while others are repayable by graded instalments. All Agricultural Credit transactions are classified, without exception, under these categories.

(6) *In Relation to the Possibility of Revocation or Non-Revocation of the Loan.*

In several instances, the revocation of a loan by the lender, or the return of the same by the borrower, is practicable at any given time prior to the fixed due date. This possibility creates two main categories of agricultural loans, revocable and irrevocable ones. The former are subdivided into three categories, dependent upon whether the lender only is entitled to demand the return of the loan prior to the expiration of the due date, or whether the early repayment is an absolute right of the borrower, or, lastly, if this concerns both lender and borrower.

All these four categories of loans present to us Agricultural Credit under different forms, as regards, at least, the point which interests us and which is anything but a minor one.

(7) *In Relation to the Productive Disposal of the Loan or otherwise.*

As regards the object for which it is utilised, we distinguish Productive Agricultural Credit and Agricultural Credit for

Consumption Purposes. The former is utilised for the production of new goods, and consequently economically useful; the second is granted for acquiring goods destined to be consumed by the agriculturist.

Agricultural Credit for Consumption Purposes is, as a rule, detrimental, because, apart from the fact that it may lead to the economic ruin of the borrower, it takes from production the capital required by the latter, which has a ruinous effect on the general economy. Nevertheless, the exclusion of the utilising of credit for consumption purposes is not only unattainable but also it is not advisable to have it altogether wiped out from agriculture. As a matter of fact, there are instances when it is not only imposed socially, but also from the view-point of agricultural production itself. This happens, for example, in the first instance following the destruction of crops, and, in the second, when the agriculturist, having used up all the means available for the preliminary preparation of the land, and the sowing, is without the requisite means for feeding himself and family during the intermediate period up to the next harvest. Also in cases where the agriculturist has managed to provide for his upkeep up to the harvest, but at the time prices have considerably fallen. In these and similar instances the contracting of an " upkeep loan " is imposed.

(8) *In Relation to its General Destination in the Enterprise.*

The Productive Credit, in relation to its destination in the enterprise, is subdivided into two categories: (*a*) Credit destined for the installation of an enterprise and (*b*) for the working of the enterprise.

When the agriculturist is contracting a loan for the purpose of purchasing land or making installations, *i.e.* when the credit is being used for creating a base destined for the production of goods, we have the Installation Credit form. On the contrary, if the sum borrowed is used for the exploitation of an agricultural enterprise already in existence, then we say that the loan serves for its working.

The repayment of loans of both these categories cannot be effected except in accordance with the conditions and the

specific object of the utilisation of the loans; and in many instances the repayment should be made gradually, by setting aside for the purpose a set percentage out of the income of the enterprise. With regard to the former category especially, the repayment, in most of the cases, is effected on the debt amortisation basis.

(9) *In Relation to its Specific Destination in the Enterprise.*

If we choose to study closely the objects for which credit is utilised in agricultural enterprises, *i.e.* its specific destination, we find the following main types of credit: (*a*) credit used for the current exploitation of the estate; (*b*) credit for safe-keeping of agricultural products pending better conditions for their disposal; (*c*) credit for the purchase of implements, live-stock, machinery, etc.; (*d*) improvements credit, and (*e*) credit to facilitate the acquiring of land.

(10) *In Relation to the Nature of Credit and the Objects aimed at.*

If, however, we decide to connect the nature of credit to the objects to be attained, four forms naturally derive from the foregoing classification of agricultural capital.[1] These comprise the principal branches of Agricultural Credit:

(*a*) The Agricultural Credit of Current Exploitation[2] corresponding to circulating capital;

(*b*) The Stock Agricultural Credit, or Agricultural Credit of Consolidated Means of Exploitation,[3] corresponding to the special class of capital concerning consolidated means of exploitation (mainly: live and ordinary stock);

(*c*) The Real Estate Agricultural Credit[4]; and

(*d*) The Agricultural Ameliorations Credit.[5]

The two ultimate categories, as regards their nature, correspond to the Real Estate Capital category, with the

[1] Cf. Categories of Capital in Agriculture, pp. 26 sqq.
[2] Cf. The Agricultural Credit of Current Exploitation, pp. 101 sqq.
[3] Cf. The Agricultural Credit of Consolidated Means of Exploitation, pp. 109 sqq.
[4] Cf. The Real Estate Agricultural Credit, pp. 113 sqq.
[5] Cf. The Amelioration Credit, pp. 134 sqq.

difference that the credits related to these have a totally different object. The Ameliorations Credit, on the other hand, presents itself under two forms, which radically differ in their substance, namely: (1) the Agricultural Credit for Real Estate Ameliorations, and (2) the Credit for Agricultural Ameliorations proper.[1]

(11) *In Relation to the Nature of the Guarantees.*

The nature of the guarantees offered and serving as a foundation of credit accords to the latter a personal or a real character. This category, in relation to the nature of the object, presents itself as movable and immovable (Real Estate). The first of the subdivisions is granted, in some instances, against titles deposited with the credit institution; in others, against agricultural products pledged, and in certain instances against the guarantee of live-stock or machinery belonging to the agriculturist, or of growing produce.

Lastly, the immovable credit is granted in agriculture against a mortgage either on land and existing buildings or on ameliorations to be carried out.

The Agricultural Credit, therefore, takes several other forms in accordance with the guarantees.[2]

(12) *In relation to the more General Destination of Credit from a Social Standpoint.*

Agricultural Credit presents itself, sometimes, under purely social forms, tending to the strengthening of a given social class of agriculturists. There are even institutions limiting their activities to the agriculturists of a single class, such as the big landowners or the big agricultural enterprises, or, on the contrary, to small-holders only. To the first category belong many of the mortgage banks and also some categories of the Credit Co-operatives of Real Estate Credit, as formerly the "Landschaften" and the "Ritterschaften,"[3]

[1] Cf. pp. 145 sqq.

[2] Cf. below: Categories of Agricultural Credit in conformity with the guarantees offered, pp. 75 sqq.

[3] Originally, these co-operatives aimed at serving only a set social class formation, as only noblemen were members of the same, and their objective aim has been the keeping and the development, through appropriate economical aid, of the big estates owned by the nobility.

and to the latter practically all Credit Co-operatives of Personal Agricultural Credit, and many State Agricultural Credit Institutions, including those transacting Real Estate Credit.[1] In former times there appeared types of Agricultural Credit and of institutions granting these, characterised, from a social view-point, not only by the economic situation of the class of agriculturists whose interests were their principal object, but also by the social standing (noble birth, etc.) of those whose interests it was their aim to serve.[2] But these types have nowadays disappeared.

(13) *The Combinations.*

We have, thus, a sufficiently full classification of forms, under which Agricultural Credit usually presents itself, as regards each factor or criterion separately.

By appropriately combining these forms, we find the species of Agricultural Credit, as they present themselves in most cases, as a whole. So we have a complete picture of Agricultural Credit. Certainly all mathematically possible combinations are not realisable here, and even of those practicable not all exist in practice. Nevertheless, the number of existing combinations is already large. And the study and scrutiny of the good working of each one of these combinations under given general and special conditions, and the highest and best attainable combination, represent the most interesting item in the transaction of Agricultural Credit from both the theoretical and practical sides.

(14) *The most Interesting Classifications.*

Out of the foregoing classifications, two present special interest. The one from the banking standpoint, the other from the point of view of agrarian policy. They are: (*a*) the one based on guarantees and (*b*) the one having as basis the nature and the specific object for which credit is being utilised in the agricultural enterprise. When study-

[1] As, for instance, the Hungarian Agricultural Credit Institution of smallholders (landowners) established in Budapest.

[2] Cf. p. 49 and notes relating to "Landschaften" and "Ritterschaften" (pp. 49, 79 and 97–8). Similar instances were available also in pre-war Russia.

ing the credit aiming at the strengthening of other productive branches, and especially of trade and industry, in the transaction of which banking predominates, preference must be given to the first of these classifications. In the Agricultural Credit, however, whilst not despising the banking view-point—as already pointed out—it is not this that presents the main interest, nor should its standpoint prevail, at least in most instances.

(15) *How the Various Branches of Agricultural Credit have been shaped.*

In practice the branches of Agricultural Credit were not at all times, nor everywhere, the same.

The history of each country, the special conditions of its agricultural production, the economic surroundings and its general civilisation, have shaped differently its Agricultural Credit and the latter's branches. In comparing, however, the various categories of Agricultural Credit in the past, and those prevailing nowadays, we find that the most appropriate classification is the one having as its basis the form and specific destination of loans in the agricultural enterprise, *i.e.* the one absolutely depending upon the form and economic destination of agricultural capital.

The classification in question we are going to have as the main basis of our present work, after, however, sufficiently dealing with that connected with the guarantees. This is owing to its importance and also its generally wide distribution.

C. The Main Banking Operations connected with Agricultural Credit

(1) *Deposits — their Advantages and Risks.*

The banks benefit from deposits [1] made, since in this way much larger sums than their original capital are put at their disposal for exploitation.

On the other hand, deposits are equally useful for the social and especially the rural economy, because, (*a*) a

[1] Cf. Courcelle-Seneuil, *op. cit.*, pp. 78–80; also Gide, *Cours*, etc., I, pp. 537–41.

multiple and better use is being made of the capital available, through its continuous circulation; (*b*) because, owing to the advantages they present, they incite to saving, and generally to the keeping on deposit of considerable sums; (*c*) because the relations and mutual bonds created by banks and the control they exercise for their own safety, tend to stabilise order and safety in the general economic relations.

It is, therefore, essential that the increase of deposits should be pursued by every possible means. This aim is being attained by (*a*) developing the sense of confidence of the public with regard to the banks, (*b*) by the development of the Credit Co-operative Organisation and the creating of a dense network of branch offices (especially savings branches), (*c*) by offering advantageous terms, encouraging the deposit of even very small amounts, (*d*) by offering all reasonable facilities as regards the withdrawal and disposal of deposits.

As far as the dangers run by the depositor are concerned, they consist, apart from risks of bad faith on the Bank's side, in the: (*a*) wrong use of deposits by investment in connection with profit-making enterprises of doubtful character, (*b*) the immobilisation of deposits by locking them up in long-term loans, (*c*) the far too great specialisation by the credit institutions in a single branch of credit, and especially in one sole branch of production.

Practically the whole foundation of savings banks,[1] and, in most instances, that of the personal agricultural credit,[2] is based on deposits.

(2) *Discounting*.

The discounting [3] of bills consists in their being purchased by the credit institution or a third party previous to the due dates, upon the guarantee of the endorisng person up to the date of payment.

In substance, therefore, the whole thing amounts to credit against the guarantee of such bills.

[1] Cf. in connection: The Savings Banks, p. 87.
[2] *Vide* pp. 75 sqq.
[3] Cf. Courcelle-Seneuil, *op. cit.*, pp. 100–105; also Gide, *Cours*, etc., I, pp. 545–9.

Discounting affords the merchant, the industrialist, or the agriculturist selling his products on credit, the possibility of immediately liquidating his credit.

The percentage deducted beforehand by the person discounting from the amount advanced on the bill is the discount interest.

The increase in the rate of this interest is due either to the scarcity of liquid capital, or to the increased demand for such capital. The increase of the rate of interest results in creating obstacles to the trade movement, in the lowering of the spirit of enterprise and the limiting of speculation. On the contrary, a fall in the discount interest rate is the result of over-abundant offers of capital, or of lack of demand for same; it facilitates transactions, revives trade, serves as a tonic to enterprise, and usually is instrumental in the development of speculation.

An extensive use of discounting is made in transacting Agricultural Credit, especially in its co-operative form.

(3) *Clearance and Current Accounts.*

Clearance [1] consists in the use of a, so to speak, accountantcy currency, which dispenses with the formalities of counting and forwarding of money, and reduces the risks and the use and wear of money.

As regards current accounts,[2] they consist in the opening of a credit with a preliminary fixed maximum limit, up to which the bank's client is entitled to withdraw amounts, on condition that he shall use his credit by instalments in accordance with his needs, and that, on the other hand, he will deposit, at his convenience, various sums of money by instalments.

Current account credit is more beneficial for commerce and industry than for agriculture.

(4) *Loans against Pledge.*[3]

This branch of banking presents itself under various forms, of which the most important are: (*a*) loans against precious

[1] Cf. Courcelle-Seneuil, *op. cit.*, pp. 96 sqq.
[2] *Ibid.*, pp. 105 sqq.
[3] *Ibid.*, pp. 111 sqq.

metals and gems, and, generally, articles of value pledged; (*b*) against stock values (obligations, bonds, shares, title-deeds, etc.); (*c*) against merchandise, (*d*) yield, (*e*) machinery, implements and tools in use, and (*f*) live-stock.[1]

In conformity with the nature of the articles, or merchandise, serving as pledges for the loan, also the conditions prevailing on each occasion, the lender obtains either these actual pledges, or the keys of the warehouse in which they are stored, or documents testifying that the goods or articles aforesaid are stored or generally are situate in a given place, and that their delivery will be effected against the respective deposit certificate and the warrant (*Lagerschein*).[2]

This last method, of guaranteeing the loan by a warrant, is generally extensively used, especially in Agricultural Credit transactions, where the guarantees offered belong, as a rule, to the three last categories (yield, machinery, implements and articles in use and live-stock) of pledges, or it may be the case of goods (tobacco, cereals, etc.) the removal of which to warehouses proves unprofitable to the lender.[3]

The interest charged for loans against pledge is usually a little higher than the discount interest, for the simple reason that the bill discounted can be used by the lending bank, whilst the merchandise or article pledged remains totally unusable.[4]

(5) *Loans against Mortgage.*

Mortgage loans are characterised by the nature and the form of the real security serving for the guaranteeing of the loan, viz. the mortgage.

The Credit is guaranteed by a privilege on the value of the real estate mortgaged.[5]

There is a definite analogy with loans against pledges, especially as regards their liquidation, with the difference

[1] Cf. The Pledge, etc., in The Guarantees in Agricultural Credit, pp. 59 sqq.; also Agricultural Credit against Pledges, pp. 90 sqq.
[2] Cf. Deposit Titles and Warrants, pp. 60 sqq.
[3] Cf. The Agricultural Pledge and the Warrant, pp. 61 sqq.
[4] Cf. Agricultural Credit against Pledges, pp. 90 sqq.
[5] Cf. The Mortgage, pp. 64 sqq.

that instead of a movable we have before us an immovable real security.[1]

With the granting of mortgage loans are occupied, as a rule and systematically, the mortgage institutions, and as an auxiliary branch (mainly for simply placing capital) such loans are granted by credit institutions of every description, and also by private persons.

The mortgage credit is of special interest to agriculture,[2] owing to its extensive use in the Real Estate Agricultural Credit.[3]

(6) *Partaking in Enterprises.*

The development of large industry, owing to the vast amount of capital it requires, has contributed to its closer connection with the banks, and has created new relations extending to the banks' direct participation in industrial enterprises, or their interesting themselves in the establishment and development of such enterprises.

This phenomenon is particularly noticeable, and on a large scale, in countries where the development of industry has not been a gradual one, but has come in rapid strides.

This branch of business cannot be considered as purely banking. Its effect on the "liquidity" of capital at the banks' disposal is extremely prejudicial, and the dangers emanating from it are most serious.

It is, therefore, recommended that special banks, namely, industrial or the like, disposing of abundant capital, should be created for the transaction of this special form of business, so as to exclude the utilisation of ordinary deposits for the above purposes.[4]

But, if matters are as depicted above where the other productive branches are concerned, when we come to examine the participation of banks in agricultural enter-

[1] Cf. Courcelle-Seneuil, *op. cit.*, pp. 117 sqq.; also Gide, *Cours*, etc., I, pp. 502 sqq.

[2] Cf. The Mortgage Credit in Agriculture, pp. 92 sqq.

[3] Cf. Guarantees in Real Estate Agricultural Credit, pp. 122 sqq.; also Guarantees in the Ameliorations Credit, pp. 137 sqq.

[4] For this branch of business and the institutions transacting same, cf. Courcelle-Seneuil, *op. cit.*, pp. 342–57 (Banques de Placement et de Spéculation), and pp. 357–64 (Haute Banque par Compagnies).

prises, they become more serious still. To begin with, the dangers are undoubtedly greater in agricultural production, and to provide for and meet such dangers proves in most instances impossible. Secondly, supervision and control are still more difficult. And, thirdly, taken as a whole, land cultivation is less remunerative for capital than are industry and trade.

Granting, therefore, that agriculture is unstable in itself, and is with difficulty manageable as a capitalistic enterprise, the participation of banks in land exploitation should, as a matter of principle, be totally excluded.[1]

[1] Cf. below: The Transacting of Non-Banking Operations, pp. 216 sqq.

CHAPTER IV

THE FOUNDATIONS ON WHICH AGRICULTURAL CREDIT IS BASED: THE GUARANTEES

A. THE FUNDAMENTAL BASIS OF CREDIT AND THE NECESSITY OF GUARANTEES

"THE productivity of an enterprise is the fundamental basis of credit."[1] Unless he anticipates a "surplus margin" in output, due to credit, no reasonable man of good faith has, or ought to have, recourse to it. The presupposition, therefore, of the success of the enterprise for which it is destined represents a fundamental condition for the use of credit.

Assuming, however, that bad faith must be reckoned with, and the issue of the enterprise cannot possibly be foreseen, and that the recourse to credit be not excluded for other purposes, regardless as to whether these be commendable or not, and generally that any lender should receive security for his loan—the existence of guarantees becomes imperative.

B. THE GUARANTEES IN AGRICULTURAL CREDIT

(1) *Their functions.*

The functions and the utility of guarantees in Agricultural Credit are of a dual nature: "static" and "dynamic." The first and foremost of these functions is related to the guaranteeing of the capitalist, the others — which, as a rule, emanate from the former — are those which attract capital in the direction of Agricultural Credit, thus rendering the guarantees a real instrument for serving the object of credit.

The first of the functions is a *sine qua non.* The second gives to Agricultural Credit all its extensiveness and substantiality.

[1] Cf. Jouzier, *op. cit.*, p. 464.

The legislator, therefore, when consolidating the legal guarantees of Agricultural Credit, should not only have in view the functions tending to the securing the guaranteeing and the means of defence of the capitalist, but also those rendering the guarantees a real magnet for credit.[1]

(2) *Categories of Guarantees.*

We distinguish three forms of guarantees: personal, real and *sui generis* guarantees.

(a) *Personal Guarantees* are of a dual nature. Some of them refer to the morality and standing, and others to the capability of the borrower, or the person obtaining goods on credit.

As regards the first item, the quality that should characterise the borrower is honesty; without it the existence of personal credit becomes impossible.

The greatest honesty, however, would be useless for the lender if unaccompanied by qualities which would permit the debtor to bring the enterprise for which he is seeking a loan to a successful end, viz. ability, an adequate education, experience, pushfulness.

Personal guarantees, however, are exceptionally easily affected, and their appropriate objective evaluation extremely difficult, if not impossible. This renders the transacting of personal credit especially difficult, and puts very narrow limits in general as regards its extent and time-limits.

Personal guarantees become far more desirable when we revert to the mutual liability system, where the risks due to bad faith, as well as those connected with the eventual outcome of the enterprise, are reduced to a minimum as far as the lender is concerned, being mainly limited to the eventuality of a general disaster affecting all the debtors forming the team, which very rarely occurs.

For the purpose, however, of making it practicable to give the necessary extension to the use of credit, it was found advisable to seek guarantees of another description, mainly, real guarantees, which secure the lender in a more positive way.

[1] Cf. A. Bolla, *Per l'Unificazione delle Garanzie Giuridiche del Credito Agrario* in "Actes" of the XIIIth International Agricultural Congress, Rome, 1927, Vol. IV, p. 248.

(b) *The Real* Guarantees.*—We distinguish two main categories of Real Guarantees: those of goods movable and immovable.

Of these two, the guarantees based on immovable goods present, unquestionably, the best security. This is quite natural, since movable goods are more subject to wear and tear, may get stolen and transferred. Immovable goods, although subject, as far as the lender is concerned, to wear and to the possibility of transfer (sale, etc.), have a lesser depreciation and abuses are possible only on a limited scale, which, as a rule, may be somehow avoided, and the disposal by sale of a mortgaged property unknown to or against the will of the creditor is, as a matter of fact, not dangerous for the latter in view of the fact that the mortgage continues to be valid, regardless of any changes in the ownership of the property.

The category of movable goods guarantees is mainly composed of pledges, and the immovable goods guarantees comprise the mortgages, the land encumbrances and a set category of privileges.

1. *The Pledge.*

"A *Pledge* is a real right of the creditor on a movable property belonging to others, on the strength of which the creditor is entitled to satisfy his claim out of the value of the said property, in preference to other eventual creditors of the debtor." [1]

The pledge, therefore, consists in the granting by the borrower in favour of the lender, in order to guarantee the repayment of his loan, of a real right on goods, movable saleable property (implements, machinery, jewellery, etc.), or on titles.[2] Their safe-keeping is usually entrusted to the lender, or to a third party (a Public or Private Law Institu-

[1] *Code Civil Français*, Arts. 2073 sqq.; *Code Civil Allemand*, Arts. 1204 sqq.; *Code Civil Suisse*, Arts. 884 sqq.; Stephen, *Commentaries on the Law of England*, pp. 556–63; Jenks, *Digest of English Civil Law*, pp. 1571–1603. As regards Greece, *vide* Decree No. 1836 "Regarding Pledges," Art. 1; also Dernburg-Dyovouniotis, *System of Roman Law*, II (Real Property Law), § 298 sqq.

[2] *Vide supra*; also Planiol, *Traité Élémentaire de Droit Civil*, II, Nos. 2388 sqq.

tion), or even to the borrower under certain conditions (tobacco pledges,[1] agricultural warrants,[2] etc.). In case of non fulfilment by the debtor of the obligations undertaken, the lender is entitled, after certain formalities, to proceed to the disposal of the property pledged, in order to cover himself.[3]

(*a*) *Deposit Titles and Pledge Deeds.*— Generally speaking, the existence of special warehouses to which is entrusted the safe-keeping, and in many instances the handling of the products, has contributed in a great degree to the generalising of the pledge credit.

These warehouses are owned either by organisations of public law or otherwise, or by special enterprises, or by credit institutions and co-operatives. They are governed by strict regulations creating the fullest possible confidence in them; this allows, without serious danger, the "mobilisation" of the goods stored in them. This is done by means of deposit titles.

The deposit and storage titles consist of receipts, issued to "order" by those entitled to do so (General Warehouse Companies, or other duly authorised organisations), to the effect that certain goods or articles are stored in a specified locality.

The withdrawing of such goods cannot be effected without producing the deposit title, duly endorsed, when delivery may be made even to a third person, apart from the depositor.

Each storage title is usually accompanied by the pledge deed, made out also to "order."

Both the title and the deed contain, as a rule: (*a*) the name and surname of the person or institution owning the warehouse; (*b*) the name, surname, profession and address of the depositor; (*c*) the denomination and as precise as possible a description of the articles deposited, also the exact quantity

[1] Greek Government Decree of November 21st–December 3rd, 1925.

[2] Greek Law No. 2184 of 1920; French Law of the 30th April, 1906; German Law of the 9th July, 1926 (Reichsgesetzblatt No. 46 of July, 1926).

[3] *Vide* Descortes, *Les Warrants de l'Agriculture Française*; Vivante, *Il Codice di Commercio commentato*, Vol. VII, pp. 554, etc.; Goldenberg, *Das deutsche Lagerhausgeschäft- und Lagerhausrecht*; Carrara, *Corso di Diritto Agrario*, II. pp. 115 sqq.

of same; (*d*) the date of their deposit, and any other useful information.

The transfer of the deposit receipt and the pledge deed is effected either together or separately, as already stated, by an endorsement duly dated. It is, therefore, clear that the mere endorsement of the storage receipt transfers the ownership of the merchandise stored without minimising even to the slightest degree the rights thereon of the lender, bearer of the pledge deed. This, owing to the fact that the endorsement on the pledge deed, which mentions the amount owing, the due date and the interest on the loan,[1] is inserted in special registers, and the property pledged is not delivered previous to the repayment of the corresponding debt.

In cases where the right of contracting a loan against a pledge is a general one, it is essential for the pledge deed to be inserted in the official registers. On the contrary, when the said right is limited to a set organisation only, this formality may be dispensed with.[2]

The introduction of the institution of deposit receipts in connection with that of the pledge deed has had a very beneficial influence on commerce, and also, partly, on industry.

Agriculture has not benefited to any important extent, owing to the difficulties presented by the transportation of agricultural products, even when this proves practicable, to the special warehouses designated for the purpose, as these are as a rule rarely found in rural districts.

(*b*) *The Agricultural Pledge and Warrant.*— The extension of credit against pledge to the rural districts has been attained through the introduction in agriculture of the institution of agricultural pledge and agricultural warrant.

The Agricultural Warrant[3] is the document constituting the Agricultural Pledge, which is set forth either privately

[1] Nevertheless, blank endorsements are not usually forbidden.

[2] Cf. below: The Agricultural Warrant.

[3] For France, *vide supra:* Law of the 30th April, 1906, and Jouzier, *op. cit.*, pp. 475 sqq. For Greece, Law 2184, *re* Agricultural Warrant, of May 23rd–June 18th, 1920, and, specifically, for Tobacco Pledges: Laws 1954 of the January 27th, 1920, 26355 of the July 28th, 1921, and Decree of September 23rd, 1925, codified by the Decree of November 21st–December 3rd, 1925. For Germany, Law of July 9th, 1926; etc.

in the presence of two witnesses, or before a notary public or any other public officer.

The insertion of the act in the official registers is, very often, an indispensable assurance of its legal force. This is explained by the fact of the pledged property remaining, in most instances, in the hands of the borrower.

Through the medium of this institution the utmost possible guaranteeing of the lender has been assured, for heavy penalties have been provided against eventual bad faith by debtors destroying or misusing the pledges, or persons constituting more than one pledge on each article.

According to most legislation, the following may constitute an object for pledge: (*a*) harvested agricultural produce of every description which, by nature, can be kept preserved (cereals, peas, etc.); (*b*) crops in the fields (non-harvested); (*c*) farm animals used for cattle rearing, and their products; (*d*) movable property, live or ordinary stock, used for agricultural and rearing exploitation (ploughing animals and otherwise, machinery, etc.).

It is understood that all the said guarantees are not of equal weight. Actually real, as regards produce stored in warehouses, and machinery, they become of doubtful reality as far as non-harvested crops and live-stock are concerned.

The Agricultural Warrant has been subjected to criticism by some students of the question owing to the dreary formalities it demands (wherever they really are such), and by others on account of the synoptic method of execution, which naturally ends in pressure whenever a lender is not animated by humanitarian principles.

We do not dispute the advisability of simplifying, as far as practicable, the respective formalities wherever they are excessive. On the other hand, it is easy to understand that a simplification amounting to the abolition, in substance, of all formalities of every type would not be reasonable, as it would lead to the absence of every security in transactions.

The most troublesome of all the formalities demanded by the agricultural warrant is, unquestionably, that of insertion in the official registers. Its abolition is possible and imposed

wherever, owing to the prevailing conditions, third parties may easily through other channels obtain information as to the existence of a real guarantee. This occurs, for example, wherever the standing law of the country limits the right of granting loans, guaranteed by agricultural warrants, to the agricultural co-operatives, or to specified serious credit institutions in each district. In this instance, the ascertaining of the existence of a pledge is carried through by such institutions, which are kept mutually advised and fully posted in this respect.

As regards the risks of exercising an undue pressure, these can only apply when the pledge is in the hands of a private person, and this is why, with good reason, the limiting of the loans against agricultural warrants to co-operatives and banks only has been recommended.[1] For certain countries, in all probability, a still stricter limitation in this connection would have been advisable, viz., to grant only to the public utility institutions of Agricultural Credit the right of contracting loans against agricultural warrants.

The agricultural warrant always, and everywhere, is a precious instrument for the transacting of agricultural credit. But its usefulness becomes indisputable wherever the producers lack their own real property, or in places where the latter is not properly ordered and protected, viz., wherever there is no properly organised land survey (*cadastre*) in accordance with up-to-date scientific conceptions.

The agricultural warrant may also render prominent service in all instances when the conditions prevailing and the agriculturist's interests, although he may dispose of the requisite real property, do not advise the use of the mortgage credit, which at any rate demands greater and more onerous formalities, and comparatively far more expense, especially with regard to small loans.

Despite the foregoing, the expansion of loans against pledge in agriculture has nowhere been as great as had been anticipated.

[1] Cf. Alex. Mylonas, *Agricultural and Real Estate Credit* (in Greek), Athens, 1919, p. 41.

2. *The Mortgage.*

The mortgage represents a legal real claim on real estate belonging to another person, conceded to the creditor for the purpose of guaranteeing the sum due.[1]

What characterises a mortgage is that it does not only grant a preferential right on the value of the estate, but also the right of succession, in that the mortgage holds good even in the event of transfer (by sale, legacy) of the estate to a third party. The guarantee, therefore, is a full one, within the limits of practicability, assuming always that the value of the said estate will cover, also in the future, the amount of the debt.[2]

In agriculture, use is being made of the mortgage guarantee in the Real Estate Agricultural Credit, and also in the Ameliorations Credit, and it forms the most substantial of all agricultural guarantees.[3]

Generally, the application of mortgage in rural districts ought not to show anything unusual in comparison with its application in towns; nevertheless, it bears certain peculiarities which require a special study.[4]

Notwithstanding that the mortgage theoretically represents an absolute guarantee, in practice, owing to the lack and defectiveness of positive legislation in most countries, it is, in fact, only a guarantee of comparative value. Additionally, it usually presents certain defects relating to the formalities of insertion in, and deletion from, the registers, and the respective expenditure and difficulties regarding the transfer of the loan.

[1] Cf. Dernburg-Dyovouniotis, *op. cit.*, II, p. 308; or, otherwise: "A mortgage is the conveyance of an estate in land by way of pledge for the security of a debt, to become void on the payment of it." Cf. Warvelle, *On Abstracts*, p. 369. Also Stephen, *op. cit.*, pp. 143–62; Jenks, *op. cit.*, pp. 1398–1421; *Code Civil Suisse*, Arts. 793 sqq. and 824 sqq.; *Code Civil Français*, Arts. 2114 sqq.; *Code Civil Allemand*, §§ 1113 sqq.; Greek Law of 1836 "Regarding Mortgages."

[2] Cf. *supra*, also Enneccerus, Kipp & Wolff, *Lehrbuch des bürgerlichen Rechts*, III, § 132 sqq.; Planiol, *op. cit.*, Nos. 2644 sqq., especially No. 2656 sqq.

[3] *Vide* Carrara, *op. cit.*, pp. 129 sqq. Regarding the utilisation of the institution of mortgage in agriculture, *vide* below, chapters: The Mortgage Credit in Agriculture, pp. 92 sqq.; Guarantees in Real Estate Agricultural Credit, pp. 122 sqq., and Guarantees in the Ameliorations Credit, pp. 137 sqq.

[4] *Vide*, pp. 94–5.

Nevertheless, all these shortcomings could be wiped out, and the mortgage be rendered from every point an ideal agricultural guarantee, provided the following reforms, some of which already exist in certain countries, would materialise: (1) a publicity system, organised in such a way as to allow, at any given moment and at short notice, the ascertaining of the burdens upon landed property; (2) simplification of the formalities of insertion in, and of deletion from, the register of a mortgage; (3) the undertaking by the State of the full responsibility for eventual disputes and controversies of any description as regards the validity and the results of mortgages officially registered; (4) the reduction to a minimum of all kinds of expenditure in connection with the registration of mortgages, and (5) the mobilisation of mortgage credit.[1]

To bring about this situation requires the existence and proper working of a perfectly organised land register (*cadastre*) on the one hand and, on the other, the irrevocability of ownership and the mobilisation of land property.

Regarding publicity, formalities and expenditure connected with the mortgage, there are no disputes at all. As to the advisability of the State guaranteeing the validity of mortgage insertions, and the actual situation of mortgaged estates when they are found to be in order from the cadastral point of view, many contradictions[2] have arisen.

[1] The "Cédules Hypothécaires" of Swiss Law (cf. *Code Civil Suisse*, Arts. 842 sqq. and 875 sqq.), the "Briefhypotheken" in German Law, etc. (*Vide:* Enneccerus, Kipp & Wolff, *op. cit.*, § 142 sq.; also Planiol, *op. cit.*, Nos. 2670 sqq.).

[2] In Australia, where since 1858 the mobilisation of real estate has materialised in full measure, in accordance with Torrens' Act, the estate belongs to, and remains under, the ownership of the person in whose name it is registered, regardless as to whether the registering has been rightly or wrongly carried out, and any eventual claim in respect thereof does not bear any real character at all, the State being responsible for indemnification of possible wrong registrations.

In England, on the contrary, the mobilisation of real estate was introduced far later, by districts and optionally only, and in cases of erroneous insertions in the registers, the person in whose name the registered estate wrongly stood was entitled to indemnity, whilst a change of registration was being ordered in favour of the person whose ownership would eventually be proved.

Vide in connection: Gide, *Cours*, etc., II, p. 253; also for a short comparative survey of conditions prevailing with regard to the cadastral book in various countries, Enneccerus, etc., *op. cit.*, § 26, Note 8. Regarding the absolute validity of the cadastral book (*Grundbuch*) in connection with bona-fide third parties, *ibidem*, §§ 45 and 137.

But, even as a matter of principle, differences of opinion were not lacking on the point of how far the mobilisation of land and the transformation of mortgage credits into movable values could be considered advisable.[1]

Without, however, minimising altogether the value of many of the arguments brought forward against mobilisation (chief among them being, in our judgment, the argument regarding speculation and the great fluctuations of land value), we do not hesitate to declare ourselves unreservedly in favour of mobilisation, under the condition of an appropriately organised service being available, and fully guaranteeing the management of the problem in a strictly formal manner and with full consciousness of its portentous responsibilities.

To this standpoint we are not brought solely by our desire to see the mortgage perfected as a guarantee and as an instrument for securing the sufficient credit so badly required by the rural districts, although even this motive alone might justify our opinion in favour of mobilisation.

There is one other reason of the greatest possible economic importance. The mobilisation of landed property would result, in substance, in the assimilation of a considerable portion of the Real Estate capital with the mobile capital, as regards its productivity and other qualities.

Presuppositions of the Practical Value of the Mortgage Guarantee for Agriculture.—It may be seen from the above that the value of the mortgage guarantee considerably depends upon the legislation in force and upon the existence of a well-organised land register. But even where such a service does not exist, or where it works defectively, a use may be made, both beneficially and

[1] Ch. Gide, in his *Traité d'Économie Politique* (I, p. 506), writes textually: "Il est très douteux qu'aucun système, si ingénieux soit-il, puisse permettre au créancier hypothécaire de négocier son titre comme un effet de commerce: celà est contraire à la nature des choses. Le titre hypothécaire participera toujours, dans une certaine mesure, à l'immobilité de la terre sur laquelle il repose. C'est vouloir faire un monstre — un peu comme on le fit pour les assignats — que de chercher à accomplir une sorte de mariage entre la terre et la lettre de change. La sûreté et la longue durée du placement hypothécaire ne peuvent se prêter à une circulation rapide."

without running risks, of the said guarantee under the following presuppositions.

It must be decreed and defined by law, in the simplest, the least expensive and the clearest way :—

(*a*) The certifying of the authenticity of acts relating to transfers of real property (by sale, repartition, exchange or gift) as well as that of the registering of mortgages, or of existing land burdens (*Charges Foncières*) or obligations. Pending proofs of the invalidity of a certain transaction, the said certificate should be considered as absolutely valid before the courts of law.

(*b*) Conditions for the identification of the real property forming the object of a legal transaction in such a way as to exclude all contests.

(*c*) Proof of the incapability to effect acts of transfer or of burdening (minority of age, legal prevention, restrictions in connection with marriage, etc.).

(*d*) Formalities of insertion in the official registers of acts of transfer and of burdens of any description on real property, which insertion should be obligatory.

(*e*) The certifying of the fulfilment of the prescriptions of the standard legislation and the procedure of clearing and regulating the right of landed property ownership, wherever the latter is subjected to restrictions as regards the extent of the real property and the status of the owner (for instance, that he should be an agriculturist himself, or that he should not be of alien nationality), or wherever the buyer undertakes fixed obligations (to cultivate the land, to dwell within the precincts of the farm, etc.).

Mortgages registered on such properties in favour of Agricultural Credit institutions should, in any case, be valid against third parties, not excluding even the state, provided the provisions of the standing legislation as mentioned above have been complied with.

It should also be decreed by law :—

(*f*) That no expropriation of real property for a general, public utility or otherwise, object can be entered upon unless an equitable valuation has been previously made and a

proper compensation offered fully guaranteeing the interest of the mortgagor credit institution.

(*g*) The indivisibility of the mortgage, as well as the method of its registration, the contents of this latter, the method of freeing from mortgage and the procedure of invalidating eventual hidden mortgages (general or legal), wherever decreed by the standing legislation.

(*h*) Lastly, the law should afford protection to the lender against acts or legal transactions of the debtor (long-term leases, etc.) which may reduce the value of the real property and, consequently, also the guaranteeing of the mortgagor, and should also regulate the procedure of seizure and sale by auction of the mortgaged property, in a way guaranteeing the obtaining by the debtor of the best possible price, and the immediate payment of the mortgage institution out of the proceeds of the sale, not excluding, in certain cases, the conceding of the real property in favour also of the said institution.[1]

3. *The Ameliorations Mortgage.*

Independently of the ordinary mortgage, there exists the agricultural, otherwise Ameliorations Mortgage,[2] which consists in a real right accorded in favour of the creditor on improvements carried out on an agricultural estate, for the purpose of guaranteeing to him the loan granted for the improvements in question.

The Agricultural Mortgage [2] is usually presented under the form of a privilege.[3]

[1] Vide: *Société des Nations,* Série 1931, II, A. 13, No. C. 375, M. 155, Genève, Mai 1931, pp. 34 sqq.

[2] Regarding the uses of the Ameliorations Mortgage, *vide*: The Ameliorations Credit, pp. 138 sqq.

[3] From the historical point of view the idea of privileged mortgage is not altogether new. During Roman times in the reign of the Emperor Marcus Aurelius, a similar special mortgage was instituted for urban estates, in favour of those disposed to grant loans for urban improvements.

As regards agricultural ameliorations, however, the oldest form of a real privileged guarantee was established much later—only in 1864, in England (Law of the 20th July). The said law instituted a privileged mortgage of special character in favour of credit institutions open to grant loans for irrigation, draining, fencing works, erection of dams and dykes, and other agricultural and land improvements of every description.

4. *Land Encumbrance.*

Land Encumbrance [1] consists in the compulsory burdening of landed property, usually by a privileged conventional mortgage, for the purpose of guaranteeing a public debt, or a debt to public or private law organisations, related to works usually of rather general importance, out of which the estate has benefited, or even for guaranteeing loans granted, also, more generally, eventual third party rights of any description.

5. *The Privilege.*

The difficulties to be faced by the current exploitation credit in agriculture with regard to the guaranteeing of the loans cannot always be overcome by the aforementioned means. This is why, in many countries, legislation has deemed it advisable to put at its disposal another guarantee, which supplements or replaces the ones already mentioned.

This additional guarantee is the privilege, which often renders useful service.

The privilege consists in the right accorded by law to certain categories of creditors — in view of the cause or nature of their credit — to receive preference over others, even the mortgage creditors in case of sale by auction of the respective movable or real property. In most of these cases, however, the privilege concerns movable property.[2]

The privilege is generally based, on the one part, on right, and on the other, on opportunity. The law usually sets forth the order of precedence of the various privileged

A little later, Prussia, by the law of May 13th, 1879, instituted a procedure according to which the agricultural banks were authorised to transform mortgages in their favour into first mortgages.

Lastly, in Italy the institution of the privileged mortgage was established for the first time by the law of the 23rd January, 1887, sub No. 4276, and followed the law of 22nd December, 1905, No. 892 and the decree of August 19th, 1917, sub No. 1399. The latter, however, does not concern Agricultural Credit, but the restoration and rebuilding of districts which have suffered from earthquake (*Vide*: Bolla, L'Ipoteca Agraria Privilegiata a Garanzia dei Miglioramenti, in *Rivista di Diritto Agrario*, No. 2 (1923), p. 145).

1 Charges Réelles, or Charges Foncières (Cf. *Code Civil Suisse*, Arts. 782 sqq.; *German Civil Code*, Arts. 1105 sqq.; etc.).

2 Vide *Code Civil Français*, Arts. 2095 sqq.; Planiol, *op. cit.*, Nos. 2542 sqq.; Enneccerus, etc., § 163, *Greek Civil Procedure*, Arts. 940–941 and 991; *Italian Civil Code*, Art. 1958, No. 5.

creditors, in conformity with their importance. First in the ranks is the person having the "privilege of first action."

The privilege may be "general," [1] viz., concerning all movable property belonging to the debtor, and, if this proves insufficient, also his real property, or "special," in which case it is valid as regards specified movable property,[2] and in other instances as regards real property.[3]

More specifically, as regards agriculture, in many countries the general privilege of first action prevails in connection with loans granted by special Agricultural Credit institutions; in other countries there is a special privilege on non-harvested crops.

In some other cases there is a privilege on the value of a non-harvested crop and of agricultural implements, seed, or other articles given to the farmer on credit.[4]

But, as a general rule, the privilege has not as yet been systematised — at least as far as agriculture is concerned — in such a way as to include all contingencies which may arise and to become a really useful instrument in the transaction of the exploitation credit.

There is a special form of privilege deserving mention, *i.e.* the privilege on the land, of which use is being made mainly in the carrying out of extensive works of public utility, in order to guarantee the service of the loan raised for the carrying out of the works and the repayment by instalments of the cost of the works by those benefiting thereby.[5]

Sometimes, under the category of privileges is also classified the Privileged Ameliorations Mortgage, called also Agricultural Mortgage, constituted by certain legislations

[1] For instance, court expenses, expenses for the upkeep of the debtor, funeral expenses of the debtor, etc. (Cf. *Greek Civil Procedure*, Art. 940.)

[2] For instance, the privilege of the person letting his farm — for the payment of the rent — on the implements, live-stock and harvested crops of the tenant (*Vide: Greek Civil Procedure*, Art. 941, § 5), the privilege of the lender on the pledge, etc. (*Vide:* idem. Art. 941, § 1.)

[3] As, for example, the privilege of the seller of a real estate, on this latter (Cf. *Code Civil Français*, Art. 2103, 1°.), pending the full payment of its value, that of engineers, architects, building contractors and workmen — on the buildings erected by them (Cf. *Code Civil Français*, Art. 2103, 4°.) — pending the payment of sums and wages due to them, etc.

[4] *Vide: Napoleonic Code*, Art. 2102, 1°, alinéa 4; *Greek Civil Procedure*, Art. 941, § 3; Carrara, *op. cit.*, II, pp. 102 sqq.

[5] In many cases it is difficult to differentiate between this style of privilege and the land encumbrance (*Charge Réelle*) proper.

in favour of agricultural and land improvements, of which mention has already been made, but its proper place ought rather to be among mortgages.

6. *Comparison between Real Estate Guarantees: Mortgage, Agricultural Mortgage and Privileged Land Encumbrance.*

The ordinary mortgage represents the ideal land guarantee from the point of view of the interests of the capitalist. But, as a rule, it is rather expensive, presents many difficulties in its application, and is not at all times the one most likely to attain the object aimed at or serve the interests of the borrower.

The Ameliorations Mortgage, or Agricultural Mortgage, possesses the qualities of publicity and of a precise object aimed at, it is subject to sinking fund repayment at set terms, and at any given moment, in a similar way to that of the ordinary mortgage. Lastly, it possesses all the qualities of its treaty nature and the attributes of an institution of private law.

But its application is limited to loans for agricultural and land improvements.

As regards the Privileged Land Encumbrance (*Charge Réelle Privilégiée*), this, contrary to the preceding, in many cases lacks the character of publicity.[1] It is usually not precise as regards time, and of uncertain effectiveness in cases of abandonment, or of transfer, of the agricultural estate; it leads to a depreciation of the value of the real estate, and it has all the defects connected with compulsion, which characterises it, because, as a matter of fact, it is merely an institution imposed for reasons of general utility. In conclusion, we may say that the Privileged Land Encumbrance is only tending to secure the payment of debt sinking instalments — which represent only income out of surplus value (created owing to the carrying out of the works in connection with which the land encumbrance has been imposed) — and not this same surplus, and, generally, it represents a capital debt.

[1] Whenever there is a case of public law. (Vide: *Code Civil Suisse*, Art. 784.)

De lege ferenda, neither the Privileged Ameliorations Mortgage, nor the Privileged Land Encumbrance, is adaptable for any application over and above the specific objects for which its use has been instituted. Especially would the generalisation of the second be altogether to no purpose, seeing that even the quality of simplicity which it appears to present is only an apparent one, in view of the complications arising out of it.[1]

(c) *Insurances as Agricultural Guarantees.*

In some instances, as an auxiliary to the mortgage guarantees, insurances appear. They are mainly presented under two forms: that of "mortgage corroborated by insurance," and that of "combination of the mortgage with the contracting of a life insurance for the borrower in favour of the lender."

It is true that very small use is made of such insurances, although it is practically a whole century since they were first resorted to in practice; but their usefulness is unquestionable and in future they may render many services.

1. *Mortgage Corroborated by Insurance.*—The reinforcing of the mortgage through the medium of insurance consists in guaranteeing the creditor by the insurance company against the eventual risk of loss of the sum lent, also the interest on it, in case of sale by auction of the mortgaged property, owing to non-fulfilment of obligations on the part of the borrower.

Under such conditions the guarantee of the creditor should be considered absolute.[2]

2. *The Combination of Mortgage with the contracting of a Life Insurance for the Borrower in favour of the Lender.*—The other way of reinforcing the mortgage guarantee consists in contracting a life insurance of the borrower in the name and in favour of the lender, in connection with the mortgage loan. In this way, not only is the lender

[1] Cf. communication of Bolla, *Per l'Unificazione delle Garanzie Giuridiche del Credito Agrario*, in "Actes" of the XIIIth International Agricultural Congress, Rome, 1927, pp. 250–52.

[2] Cf. in connection: Buchenberger, *Agrarpolitik*, II, p. 133; Philippovich, Politique Agraire, p. 290.

guaranteed in a fuller degree, but the heirs also are freed from very irksome difficulties and from the uncertainty following a premature death of the person contracting the loan.[1]

In both these instances there is a small increase in the debt-sinking instalments because of the addition of the insurance premiums.

But this additional burden is insignificant in comparison with the possibility of increasing the amount of the loan and improving its conditions, owing to the fuller guaranteeing of the creditor.

As regards, however, the increase of the percentage of the loan in comparison with the value of the agricultural estate, the remark of Philippovich that this should not at all times be considered as an advantage[2] is a perfectly reasonable one, because it contains serious dangers of abuses of credit.

3. *The Possibility of extending Insurances to other Cases of Agricultural Credit.*—Insurances are destined to serve in future not only the mortgage credit but also the other forms of Agricultural Credit.

Their combination with the Agricultural Credit against pledge presents especially an exceptional interest, in view of the wear and tear and destruction to which agricultural pledges are subject.[3]

(d) *The State Guarantee.*

Lastly, there appears in agriculture, as another specific guarantee, the State Guarantee, consisting in the liability which the State agrees to undertake, in given instances, in favour of agriculture, for the purpose of securing funds for the Agricultural Credit institutions.

The said guarantee may concern either the whole of the administration of the Agricultural Credit institutions, or only the "deposits," or specified issues of bonds, or similar

[1] In connection with this combination, *vide* the works of Hecht, who was the first to introduce this combination (Hecht, *Die Befreiung des ländlichen Grundbesitzes von Hypothekenschulden durch Annuität- und Lebensversicherung*. Also, by the same author, *Der europäische Bodenkredit*).

[2] Cf. Philippovich, *op. cit.*, p. 290.

[3] Cf. below: The Agricultural Insurances, in chapter: The Credit Policy of Agricultural Credit Institutions, p. 217.

titles.[1] In other instances the State accords its guarantee to the credit institutions in favour of a fixed category of agriculturists, or with regard to a given district, in order to encourage and reinforce such agriculturists, although they may not present the requisite guarantees.

In any case it forms the highest of guarantees.[2]

[1] Cf. also below, p. 205.

[2] The *State Guarantee* could probably be classified among the personal guarantees. But the special elements it presents render its separate classification more advisable.

CHAPTER V

CATEGORIES OF AGRICULTURAL CREDIT IN CONFORMITY WITH THE GUARANTEES OFFERED

A.—Personal Agricultural Credit

(1) *Characteristics and Special Conditions governing its Transaction.*

The Personal Agricultural Credit is the one founded solely on personal guarantees.[1] That is to say, it is based on the confidence inspired by the agriculturist himself, his good morality, his professional capability, his saving habits and the general spirit of order and conservatism governing his life. All these *desiderata* presuppose a perfect acquaintance with the economic situation of the borrower and an incessant following up of his economic ties and connections.

It is generally admitted that the agriculturist is, as a rule, more conscientious than the townsman, but, on the other hand, in most countries he is found wanting in economic education. For the other part, the computation by the credit institution in each specific case, of the morality and standing, of the capability and general solvency of the person to whom the loan is being granted, already difficult to accomplish in towns, becomes practically impossible as regards the rural districts, where the following up of the borrower and the tracing of his antecedents previous to the granting of the loans, and of his actual situation after granting these, present great difficulty and entail considerable expenditure.

(2) *The Categories* :—

(a) *Individual Personal Agricultural Credit.*

The Individual Personal Agricultural Credit concerns

[1] Cf. The Personal Guarantees in Agricultural Credit, pp. 58 sqq.

individual persons, and is based on the good morality and capability of each one of them. For the reasons stated, the Individual Personal Credit does not find in agriculture the extensive application it meets with in commerce.

The transacting of this style of credit is a very delicate business and open to very serious dangers. Hence the limitations imposed as regards time-terms, as well as the scale of its transaction.

Originally, the Personal Agricultural Credit was carried out by the commercial banks, but, as a rule, so unsuccessfully—owing to the aforementioned disadvantages and also in view of the fact that Agricultural Credit is not as profitable as other banking operations—that the said banks were in most cases soon forced to leave it alone, or at least to limit its transaction only to owners of big estates and cultivators on a large scale, whilst this style of credit has as its main object the freeing of cultivators in a small way from the grasp of usury, and the serving of the interests of small and medium cultivation enterprises — this for many social, economic and other reasons.

Owing to the very nature of Agricultural Credit, its successful transaction cannot generally be attained "from a distance" and "from the heights."

Specifically, the carrying out of the aforementioned category is not only subject to the generally accepted principles and methods of transacting credit, but also to special ones, because of the difficulties in ascertaining the standing of the person to whom the loan is to be granted, to which allusion has been made. Still more does the following up of the borrower, after the granting of the loan, complicate matters. Apart from all this, the transacting of the said category of credit requires as full a knowledge as possible of the agricultural economics and the technical, as well as social, conditions prevailing in each district.

The disadvantages of the Personal Agricultural Credit are reduced to a minimum, its transaction rendered much simpler and easier, and much reduced in expenditure, by resorting to the Mutual Liability Co-operative Organisation.

(b) *The Mutual Liability Personal Agricultural Credit.*

1. *Its Advantages.*—The Mutual Liability Personal Credit is applied in connection with a body of persons, mutually bound and mutually responsible for the obligations of the whole of that body. This style of credit, guaranteeing as it does the lender in a sufficient manner to allow for its transaction on a considerable scale, is, at the same time, much more convenient for those among the producers who, although of good standing and capacity, find themselves unable to offer real guarantees.

It is true that this form of personal credit presents the disadvantage that it proportionally increases the responsibility of each one of the members by his being burdened with the guarantee of obligations of other persons. It is equally correct that a capable and laborious person of good standing is able sometimes to secure alone the means required for the advancement of his enterprise.

But the disadvantage concerning the responsibility is reduced to nil in practice through due attention being paid to the choice of the partners, whilst, on the other hand, the personal credit by becoming mutual facilitates the contracting of loans, and also increases the respective amounts and improves the terms thereof.

Generally speaking, the disadvantages connected with the personal credit, whilst acquiring their greatest expression in individual form, are amazingly reduced in the mutual form of this style of credit.

Mr. Louis Tardy [1] characterises in a splendid way the Mutual Credit Co-operative Organisation, as follows: "Elle puise sa force matérielle, et sa haute portée morale, dans l'union confiante et désintéressée de tous, et l'esprit de solidarité que chacun met au service de l'œuvre commune."

2. *The transacting of same.*—The Mutual Personal Credit has been applied on a large scale in civilised countries for strengthening the lower classes of agriculturists, particularly the class of small cultivators. Nobody denies its beneficial influence as regards the economic education of nations.

[1] *Vide*: L. Tardy, *L'Organisation Actuelle des Établissements Nationaux de Crédit Agricole, et l'Organisation du Crédit Agricole International.* Agen, 1926, p. 44.

(3) *The Agricultural Co-operative Organisation as a factor for the canalisation of Personal Credit to Rural Districts.*

The organisation of Personal Agricultural Credit "from the bottom," on the basis of mutual liability and by utilising the Agricultural Credit Co-operatives and their organisations both central and of second degree, has proved to be the ideal solution of this extremely difficult problem, also of the repartition of capital, and of the still more difficult problem of following up the person contracting a loan as regards his actual utilisation of it.

The members of agricultural co-operatives and especially their boards, are well informed as to the solvency and the working of the enterprises as well as to the needs of each of the agriculturists composing them, and are in a better position than anyone else to direct and control the good utilisation of any loan granted.

The Agricultural Co-operative Organisations of second degree are also well acquainted with the situation from every standpoint, both of the co-operatives of which they are composed and of agriculture, in their respective districts.

They are, therefore, indicated for judging and gauging the needs of each of the co-operatives for the most fair and useful allotment of available capital, and for the following up of each separate co-operative.

This applies also to any third degree organisations as regards the allotment of capital among those of the second degree.

(4) *The Co-operative Organisation. The Contemporary Forms of Co-operative Agricultural Credit.*[1]

The honour of founding the first modern Agricultural Credit Co-operative, judged from the present-day conception of the term, falls to Friedrich Wilhelm Raiffeisen. It took place in Germany in 1849, and at the

[1] We consider the acquaintance with the Co-operative Organisation as a *sine qua non* condition for the proper and profound study of Agricultural Credit. But we would enlarge our work too much by trying to give a more or less clear idea of co-operative matters. We shall, therefore, confine ourselves to touching upon the question of Credit Co-operatives. Students of the question desirous of going deeper into the study of the problem may refer to special treatises.

date of his death, 1888, the "Raiffeisen" type of co-operatives had reached the number of 862. Nowadays they are numbered in thousands.[1]

The expansion of Credit Co-operatives[2] the world over

[1] Ancient Greece presents us with the initial forms of Co-operative Credit. (Mr. Acerbo seems to accept the possibility that the Egyptians and the Chaldæans preceded Greece in this respect. Cf. Acerbo, *op. cit.*, p. 59.) We have here the *Ταμεῖα*—"Treasuries"—emanated from the various co-operatives and bearing, as distinguishing mark, the mutual liability. These treasuries granted interest-yielding loans to members of the co-operatives.

The same source was instrumental in the appearance of similar institutions during the Roman period. Whilst in mediæval times instances of Banking Institutions of Mutual Credit are not lacking (they appear as far back as the year 1198 in Bavaria, namely, in Fresingen, and in Eastern France, Franche-Comté, in 1350). Most of the institutions of the three epochs aforementioned bore a social philanthropic character. This character is more prominently apparent in the so-called "Monts de Piété" (*Vide*: Blaize, *Des Monts de Piété et des Banques de Prêt sur Nantissement*), the establishment of which is due to the monks of the Franciscan Order during the second half of the fifteenth century (the first known Mont de Piété was established in Perugia, Italy, by Barnaba da Terni in 1464).

The expansion of Monts de Piété all over Europe was very rapid, and especially in Catholic countries, and their activities proved extremely beneficial. They were privileged institutions, from which every profit-making object was altogether excluded. The interest charged on loans was, therefore, a very low one, and they were administered by philanthropists, who saw to their being reinforced with the capital required.

Another category of institutions deserving special mention are the so-called "Pósitos" in the Iberian Peninsula. The character of these banks—for it was a case of actual banks—was not mainly that of credit institutions from the very beginning. It is true they used to grant loans to agriculturists in kind, and specifically in wheat (and the said loans, and the interest accruing, were to be repaid also in kind), but they served also as supply centres for the population, especially in times of bad crops. The first official regulation of the "Pósitos" dates as far back as 1854 (Cf. Zorita, *Los Pósitos en España*; also: Inst. Intern. d'Agr., *Bull. des Rens. Écon. et Soc.*, 1930, pp. 130 sqq.).

About the end of the seventeenth century there appear in Italy the so-called "Monti Frumentari" (cf. Acerbo, *op. cit.*, p. 60), which do not differ much from the Spanish "Pósitos." In Germany and the German countries we meet the "Markgenossenschaften" (cf. Brocker, *Von der Markgenossenschaft zur Gewerkschaft*)—communal organisations bearing an economic and political character, and tracing back their origins to the nobility. Organisations of a similar nature appear also in the Slav countries ("Zadruga," etc.). The latter are of a purely communal character.

But the keen growth of world economics and civilisation demanded day by day further bracing and developing of agricultural production, a situation altogether unattainable without a proportional increase of agricultural capital.

The securing of the latter was impossible through the medium of the above-mentioned and other similar pre-capitalistic co-operative organisations. The necessity, therefore, of creating new types adapted to the new conditions and suitable to serve, also in the future, agricultural economy with its rapid evolution, became each day more imperative.

[2] Cf. Fay, *Co-operation at Home and Abroad*, pp. 19 sqq.; Raiffeisen, *Die Darlehnskassen-Vereine*; etc.

has been such that we may say they form the very foundation of Agricultural Credit, not only under its personal, but also under its real property forms.[1]

(a) *Co-operatives of the "Raiffeisen" type.*—The "Raiffeisen" Co-operatives[2] have as their basic object the abundant granting of capital at a low rate of interest to persons in need of it for their productive work, especially to those among the producers who, although of good standing, are not economically strong enough to carry on the work. They, therefore, are governed rather by moral and philanthropic than by purely banking principles.

The main characteristics of these co-operatives are: (*a*) the unlimited mutual liability responsibility of their members with regard to obligations undertaken by the co-operative; (*b*) no establishment fund and no obligatory contributions of any kind on the part of the members; (*c*) no repartition of profits.

The profits accruing are placed to the reserve fund of the co-operative, utilised for covering any eventual losses, or for the granting of new loans or effecting a reduction in the interest rate; if they are excessive, they are used to carry out works of general utility. (*d*) The rate of interest paid to members making deposits in the co-operative treasury

[1] Dr. Karl Ihring, in his work published in 1928, calculates the total number of credit co-operatives spread all over the world to be nearing 95,000. We shall not be far from actuality in taking this number at present to be in the vicinity of 100,000.

The International Institute of Agriculture in common with the International Institute of Statistics, the International Labour Bureau, also the competent services of several states (especially of the United States of America), and a number of scientists, have displayed at various times praiseworthy efforts to concentrate in a uniform manner statistics and other elements, which would assist in forming an idea regarding the universal co-operative organisation and its general contribution to the work of Agricultural Credit, in order to draw useful conclusions from the comparative study of the data collected.

But these efforts have not succeeded in collecting sufficient and satisfactory data, nor the introduction of a uniform method in collecting statistical data in the various countries has been attained, so as to offer the hope that in the near future the requisite precious material might be at the disposal of students of the question.

But even if a uniformly organised collection of material were obtained, its data would prove, and possibly for some time to come, of doubtful precision, because, in many instances, the administrations of co-operatives are loth to allow their professional secrets to see the light of publicity, and also because, as a rule, and very unreasonably so, statistical information is considered as a means of advertisement and propaganda.

[2] *Vide:* Raiffeisen, *op. cit.*; also Fay, *op. cit.*, pp. 42 sqq.

cannot exceed the rate of interest charged on loans granted; (*e*) only the co-operators, rich or poor irrespectively, are entitled to contract loans; (*f*) the persons in charge of the administration are not entitled to any remuneration; as a rule, the accountant only receives a salary.

From the above the following conclusions may be drawn: (*a*) the members of these co-operatives must needs be well acquainted with each other and respected; (*b*) their field of action cannot be very extensive, nor can the number of the participants [1]; (*c*) loans are granted for a term of one to two years, and exceptionally for longer, with a maximum of ten years. Generally speaking, the due date of the loan is calculated well within the said limits, in conformity with the needs of the occasion, and so "credit is measured"—in the words of M. Philippovich—"by the measure of actual needs." [2]

But this form of the Raiffeisen co-operatives has not been strictly adhered to. With time, the principles governing banking institutions have been seriously taken into consideration and the solvency of the person contracting a loan, at least from the point of view of morality and capacity, was first examined.

The co-operatives then proceeded to issue bonds with limitations as to their amount and the number that each co-operator was entitled to hold. Also they admitted the division of a part of the profits among the members. Lastly, they established the revocability, after notice, of loans granted for terms longer than the usual time limits.

In conformity also with local conditions and the requirements prevailing in various countries in which they were established,[3] they were again reorganised and developed in a more or less different way in various parts. In many instances, however, these co-operatives are taking, or, at least, did take on a certain religious shade. Nevertheless, the basis remains invariably the same.

The extensive economic ground covered by the "Raif-

[1] According to Raiffeisen, the maximum membership should not exceed 1,500.

[2] Cf. Philippovich, *op. cit.*, p. 308.

[3] Germany, Switzerland, Russia, Austria, France (Durand), Italy, Balkan countries.

feisen" credit co-operatives — owing to the unlimited mutual liability obligation of their members — and the security they offer permit them to find abundant and cheap capital. The latter is conceded in the shape of loans to the co-operators at a somewhat higher rate of interest, so as to cover the administrative expenditure of the co-operative. Loans are not granted any more to anyone unless he can offer all the guarantees for regular repayment of same — guarantees of a moral, as well as of a financial order — and more especially the object for which the loan is going to be utilised is examined.

The " Raiffeisen " co-operatives represent the Agricultural Credit co-operatives *par excellence*, and their contribution to the development of agriculture, the welfare of agriculturists and to civilisation in general is incalculable.

Nevertheless, where there is a mixed population — a thing frequently occurring in the big centres — or where agricultural enterprises are spread over a distance from each other, and, more generally, when difficulties are experienced in finding the proper men for their disinterested administration, these co-operatives cannot be considered as the most suitable ones.

(b) *Co-operatives of the Schulze-Delitzsch type*.—The "Schulze-Delitzsch " credit co-operatives [1] were founded practically at the same time as those of the " Raiffeisen " type, but with the object of serving small industry, also the working classes and the populace generally. Nevertheless, they were not tardy in extending their activities to rural districts, and at present, they are competing in this field with the " Raiffeisen " co-operatives.[2]

These co-operatives present themselves under the form of banking bond companies; they possess a perfect economic

[1] *Vide:* Schulze-Delitzsch, *Vorschuss- und Kredit-Vereine als Volksbanken;* also, Fay, *op. cit.*, pp. 22 sqq.

[2] Schulze divides the co-operatives, aiming at serving the popular classes, into two main categories, in conformity as to whether they demand, or do not demand, the abandoning, in part or in its whole, of his former occupation by the co-operator. Under the first category he classifies the " Co-operatives of storing in common and selling of products " also of their " manufacturing." His second category comprises co-operatives of " Purchase of Raw Material," of " Consumption," of " Social Aid " (in cases of illnesses, etc.), and the " Credit Co-operatives," which interest us.

organisation, are governed by very strict principles, and aim not only at the transacting of credit, but also at the development of the spirit of economies and savings.

Apart from the mutual liability of their members, these co-operatives show the following characteristics: (*a*) each bond represents a comparatively important amount of money,[1] payable by instalments and at regular but lengthy time limits; (*b*) they accept deposits from third parties, at short terms, or at sight; (*c*) they tend to the realisation of as high profits as possible (they impose, therefore, comparatively high rates of interest); (*d*) these profits are divided between the co-operators; (*e*) their membership is unlimited, the only condition being that members should possess the qualities judged as essential; (*f*) their working is undertaken mainly by a salaried staff.

These co-operatives also accept deposits from non-members up to a certain percentage of their capital, and their credit operations are limited to the granting of loans and the opening of current accounts. The main thing interesting these institutions is the security of the loan, and not the object for which it is destined, nor the moral standing of the borrower.

Such has been the initial form of the Co-operative Banks of Schulze. In course of time, however, the strong competition of the " Raiffeisen " co-operatives on the one part, and the necessities of the situation on the other, have caused them to make considerable changes. First and foremost, they found themselves obliged to put certain limitations upon their profit-making tendencies, and, subsequently, to limit their operations to their members alone. Finally, they adapted the time limits of their loans to the requirements of agricultural economy, and, more generally, they have conformed to the *desiderata* of the rural districts.

(c) *Comparison of the two types, " Raiffeisen " and " Schulze-Delitzsch."*— On their first appearance the systems of Raiffeisen and Schulze-Delitzsch were diametrically opposed to each other. But the changes effected with time have

[1] In Germany, mostly, of thousand marks gold.

reduced and planed the angles, and brought the two systems considerably nearer to one another.

Anyhow, the differences between the two have not altogether disappeared, and this would not even be desirable. The "Raiffeisen" co-operatives undoubtedly represent the ideal organisation for a limited circle of cultivators, with sufficient homogeneity, provided they are able to find among their members the persons required for their administration. The "Schulze-Delitzsch" co-operatives, as developed at present, are the most suitable ones for the big, non-homogeneous agricultural centres.

(d) *The Other Systems.*—Apart from the "Raiffeisen" and "Schulze-Delitzsch" types there are other forms of co-operatives, but most of them in their constitution more or less approach these types, or partake of both of them. We do not find, generally, any substantial differences except in the liability, which may be "limited" to the multiple of each share.

(e) *Co-operative Credit Organisations of a Higher Degree.*—In examining the situation of the credit co-operatives as regards their capital, we find the following four cases: (*a*) The credit organisations may find themselves in perpetual necessity of recourse to the money market for securing the capital required for granting the requisite loans to their members; (*b*) the possibility is not excluded for the co-operatives to be self-sufficient as a rule, and only at given periods to find themselves obliged to apply for outside capital; (*c*) there is the probability of their having accrued sufficient capital even for periods when the needs of their members are at their highest, and they may possess excess of capital for the rest of the time; lastly, (*d*) they may at all times have capital in excess of their actual needs.

In the first two instances, the co-operatives are bound to take steps for securing the necessary capital, whilst in the last two it is to their interest not to leave their excess capital unused, even for the shortest period of time; because the eventual income from the latter would permit them to effect reductions in the interest rate charged, and generally to improve the conditions of loans granted to their members.

But this work of finding capital on the one hand, and of suitably placing excess capital on the other, presents many a difficulty for isolated co-operatives, and cannot be carried out by them at all times under favourable conditions, owing to the distance in the location of most co-operatives, the comparatively small sums involved, the lack of an appropriate organisation and of an adequate acquaintance with the situation that may prevail and also with the remaining particulars requisite for the purpose. The necessity, therefore, for creating co-operative organisations of second degree, or even of third degree—by uniting all homogeneous credit co-operatives (separately of the "Raiffeisen," "Schulze-Delitzsch," etc. types)—and also, over and above this aggregation, a central institution, becomes self-evident for every interested country.

The Second Degree Co-operative Organisations concentrate, according to districts, the excess capital of the Agricultural Credit co-operatives under their jurisdiction, and proceed to its distribution to those needing it.[1] Where the capital in a given district may prove insufficient they endeavour to secure the required amount. But the various categories of Agricultural Credit,[2] and the variety of co-operative systems [3] combined in their "Unions" require a further concentration, in conformity with the branches of credit, or according to the systems followed.

Thus arise the Third Degree, or Central Institutions in the order of branches, or systems applied. Their mission is one and the same as that of the Second Degree establishments with whom they are mainly in contact, but is on a larger scale. They have, as a rule, in addition to the mission of "financing," that of controlling and defining at least the general lines of credit policy of the formation under their jurisdiction.

The control of administration and of the credit policy of the dependent co-operative organisations on the part of those

[1] *Vide* also p. 78.
[2] Agricultural Credit of Current Exploitation (cf. pp. 101 sqq.), Consolidated Means Exploitation Credit (pp. 109 sqq.), Land Credit (pp. 113 sqq.), Ameliorations Credit (pp. 134 sqq.).
[3] "Raiffeisen," "Schulze-Delitzsch," etc.

overhead, forms the foundation stone of the co-operative credit system.

(f) *Nature and Forms of the Co-operative Credit Organisations of Higher Degree, entrusted with a Financing Mission.*—The Credit Co-operative Organisations of higher degree are absolutely based on the same principles as the credit co-operatives of first degree. As a rule, they are either not possessed of any capital of their own at all, or they dispose of capital which is entirely disproportionate to their turnover. They serve simply for regulating the distribution of the funds deposited with them by the co-operative organisations of lower degree, and by other possible depositors, also of loans contracted on the money market, and equally of possible outside reinforcements, especially of State aid.

In certain cases the Central Co-operative Organisations of Agricultural Credit may be regarded as semi-State institutions, but in most instances they remain altogether independent, being subject only to a simple State control, more especially as regards eventual grants to them for the reinforcement of Agricultural Credit. There are also instances of the higher degree (including central) co-operative organisations establishing credit banks under the form of limited liability companies (*Sociétés Anonymes*).

(g) *Relations of the Co-operative Organisations of every description between themselves.*—The necessity of Higher Degree and of Central Co-operative Credit Organisations being admitted, the question arises: What are the relations of these among themselves and with regard to other co-operatives [1] and their eventual specific higher degree organisations? These relations cannot but have a proportionate influence on the general formation of the first ones.[2]

To this question we cannot give a definite reply. As a matter of principle, the collaboration and mutual reinforce-

[1] For the supplying, manufacture and commerce of agricultural products, for land ameliorations, consumption, etc.

[2] It is self-evident that this question does not concern the relations between those hierarchically depending and those heading the latter, because their connection is defined by the hierarchy itself in each network of such organisations.

ment between co-operatives of all degrees and of every description seem obvious, and in practice we meet with a multitude of instances of unions comprising co-operatives of every style, credit and otherwise, of unions of credit co-operatives and of non-credit co-operatives of second degree collaborating together, or both belonging to one and the same organisation of third degree.

On the other hand, there are not only different co-operative networks which, having a different mission to fulfil, have not the slightest formal or substantial connection between themselves, but it also occurs that networks of higher degree co-operative organisations of the same category (in the case interesting us, credit co-operatives) are altogether foreign to one another. This mainly occurs whenever such organisations assemble co-operatives homogeneous in themselves but based on an altogether differing system.[1] Anyhow, the connecting link may be attained within the co-operation—in the central co-operative establishment or the central co-operative bank.

(5) *Savings Banks.*

Along with the credit co-operatives, and in between the personal and the real Agricultural Credit, we must mention shortly another category of credit institutions which presents certain points in common with the former. They are the Savings Banks. Although the Savings Banks are not, properly speaking, institutions of Agricultural Credit, nevertheless, in many countries their contribution to the work of credit in agriculture has been a praiseworthy one,[2] regardless of the fact that in most instances it is not a case of systematic transactions of Agricultural Credit, but simply of placing part of their capital preferentially in Agriculture. The stimulus of such a preference is concealed —apart from the other advantages and the security which

1 "Raiffeisen" and "Schulze-Delitzsch."

2 The real contribution of the Savings Banks to Agricultural Credit cannot possibly be even approximately appraised, considering they very seldom keep absolutely separate and precise statistics regarding their grants in respect of agriculture. Nevertheless, from calculations made their great reinforcing value proves often undoubted.

in certain countries and in some particular cases capital invested in agriculture enjoys—in the fact that the standing legislation in certain instances imposes the obligation upon them to dispose of a certain percentage of deposits made with them in favour of agriculture, and, as often as not, this motive is due to the public utility character of most Savings Banks.

Savings Banks are, so to speak, banking institutions *sui generis* aiming at concentrating the small savings of the people and rendering these productive. Their beneficial activity, therefore, is directed to two main channels: thanks to them, it is possible to utilise in production small sums, which, insignificant in themselves severally, are important in their total, and the classes economically most weak are encouraged to effect savings.

Their public utility, therefore, is self-evident. The incitement to savings is enhanced both by the favourable terms offered by these institutions, and also, and mainly, by their fully guaranteeing the deposits made with them, which guarantee is in many instances further guaranteed by the State itself.[1]

[1] *Mutatis mutandis*, we meet with several outline forms of Savings Banks even in ancient times. There are students of the question who find that Delphoi in Greece present an embryonic form of Savings Bank in the custom prevailing then of deposits made by slaves. The Roman legionaries too were in the habit of depositing part of their money gifts, which were very seldom withdrawn—and this institution partakes of the principles of both Savings Banks and insurances (cf. Acerbo, *op. cit.*, p. 80).

Additionally, instances of depositing savings with private persons were not rare, and were common during mediæval times, although in this respect we find, during the latter period, the principal part played by guilds and corporations.

The first institution with a special mission and an organisation approaching to that of present-day Savings Banks is the "Sparkasse" established in 1778 in Hamburg. (Regarding the history of Savings Banks, *vide*: Malchus, *Die Sparkassen in Europa*.) A step forward as regards the self-dependency of savings institutions, was registered with the establishment, in 1810, in the village of Ruthwell of a Savings Bank by the Scotsman, Henry Duncan. Lastly, in 1861, appear in England the Post Office Savings Bank branches.

The spread of Savings Banks has been very rapid.

The beginning certainly was made in Germany, but the success marked by the Post Office Savings Banks of Gladstone in England contributed to a considerable degree to their expansion all over the civilised world. As a matter of fact, legislation in many countries is being modelled, at least basically, on the British type, and there are also foreshadowed Central Institutions of Savings Banks.

B. Real Agricultural Credit

(1) *The Insufficiency of Personal Credit.*

Regardless of how far personal credit may serve the agriculturist's interests, even under its mutual liability form, the said credit can but suffice for the current cultivation needs of the agriculturist, and this not at all times.

To complete his capital requirements for exploitation, purchase of machinery, installation of permanent expensive cultures (orchards, vineyards, etc.), for the carrying out of land improvements (draining and irrigation works, improving the soil, etc.), for the building of warehouses and farm buildings (stables, pigsties, etc.), lastly, for the increase of allotments or the purchase of a farm, the agriculturist is bound to find additional capital, which only real credit can supply him with, as only this style of credit presents the requisite, practically absolute, guarantees and allows for the contracting of medium- and long-term loans.

(2) *The Bases of Real Credit and its Categories.*

In the same way as personal credit is founded on personal guarantees, real credit bases itself mainly on real guarantees. In this latter style of credit the reliance and confidence as regards the person of the borrower carries much weight in practice; but this confidence is reinforced, in many ways, by the borrower conceding to the creditor a real right to a certain article, of which the lender is entitled to make use for satisfying his claims whenever the debtor cannot meet his obligations. Taking it for granted that the guarantees on which this form of credit is based are not subject to the changes to which personal guarantees are subjected with the passage of time, the constant following up and controlling of the debtor—a difficult and annoying item—becomes, as a rule, superfluous.

In conformity with the forms of real guarantees offered, real Agricultural Credit is divided into two categories: movable and immovable. There is another *sui generis* category, viz., that against privilege.

(a) *Agricultural Credit against Pledges.*

In cases when, as a guarantee of real Agricultural Credit a pledge is constituted,[1] we have the Agricultural Credit against pledges.

The agriculturist may revert to this style of credit following a depletion of his personal credit, in most cases prior to the harvest, or immediately after it, when the current prices for his products are unsatisfactory and he prefers to await an improvement of the market; but this branch of credit is not excluded at any given time for meeting exceptional needs.

Owing to the credit against pledges, the extension of credit becomes possible even there—and in many cases to the extent imposed by production needs—where personal guarantees are not sufficient.

Agricultural credit against pledges aims, mainly, at the transaction of current exploitation credit; nevertheless, the pledge allows, to a certain extent, the granting of medium-term loans without burdening the borrower with the heavy expenses and the formalities accompanying the mortgage credit.

Trade and industry extensively avail themselves of the credit against pledges—agriculture more seldom, and, to be precise, only where there are suitable warehouses in the districts for the safe-keeping of the products, or where the institution of warrants has been introduced.[2]

The Movable Real Agricultural Credit or Agricultural Credit against Pledges, however, bears this characteristic, that usually, and in substance, it represents an extension of the personal Agricultural Credit. And this, chiefly because, as regards agriculture, more often than not the keeping of the pledge is entrusted to the agriculturist himself, on account of the nature of things pledged.[3] As a matter of fact, the agriculturist seldom disposes of suitable warehouses, situated in proper places and responding to the conditions required, and only in exceptional cases is he in

[1] Cf. The Pledge, pp. 59 sqq.
[2] Cf. The Deposit Titles and the Warrant, p. 60.
[3] Cf. The Agricultural Pledge and Warrant, p. 61.

a position to transfer and store the articles or products to be pledged in warehouses of a third party (general warehouses, etc.) for the direct security of his loan needs or against the deposit receipt issued by the organisation undertaking their safe-keeping.

The reasons for the above inability are four: (*a*) the actual value of agricultural products is seldom proportionate to their bulk, and their burdening with transport, storage, etc. expenses, is unprofitable; (*b*) very often storing in proper warehouses proves impossible owing to the scarcity of such warehouses in the country; (*c*) in certain cases the articles to be pledged are of such a nature that the agriculturist cannot possibly part with them either because it is a case of articles "in use," viz., implements, utensils and farm animals, or because the said articles would require his attendance upon them and must remain with him, as for instance, is the case with cattle reared for consumption, and (*d*) we have the non-harvested yield, which can very well be pledged, but the transportation of which from place to place is utterly impossible.

But, even under the conditions mentioned, the pledge represents undoubtedly a serious surplus guarantee allowing for the granting of wider credit, over and above that of the purely personal.

It would be advisable to have the Agricultural Pledge Credit divided into two categories, in conformity with the guarantee presented by the pledge, either on account of its own nature, or of the state in which it is found to be when contracting the loan. So, we shall have :—

1. Loans against Semi-Real Guarantees, in which category the loans on pledge will be classified as follows :—

(*a*) When the pledge actually exists only in an embryonic state on contracting the loan, and it is precalculated that its regular development will be completed, and it will reach the whole of the requisite value prior to the expiration of the due date of the loan; and—

(*b*) When the pledge, although actually existing on the date of contraction of the loan, is subject to risks of destruction, as is the case with live-stock.

Both these guarantees might become more substantial or real if the pledge were insured for its value against all risks of whatever nature.

2. We shall classify among the loans against actual real guarantees, all such loans in respect of which, when they are contracted, the pledges are found in their natural marketable state, and the wear and tear to which they may be subjected up to the date of repaying the loan cannot but very slightly affect their market value. Such articles are agricultural products not subjected to immediate destruction (as cereals, tobacco, etc.) and agricultural machinery.

(b) *Mortgage Credit in Agriculture.*

1. *Characteristics of Mortgage Credit, especially in its application to Rural Surroundings.*

Mortgage Credit is characterised in agriculture, as well as in other fields of its application, by the fact that it guarantees to the creditor a "Right of Mortgage"[1] on an agricultural estate.

Thus the owner of the latter avails himself of the possibility to secure substantial credit without the estate getting out of his ownership and administration.

The estate simply guarantees the timely payment of interests accruing and the return of the loan according to agreement. And only in case the debtor should be found wanting in the fulfilling of his obligations is the creditor entitled to seek the dispossessing of the debtor from ownership in order to meet the repayment of debt.

2. *The Utility of Mortgage Credit for Agriculture.*

The fundamental basis of Mortgage Credit is the immobility of the soil, which, taken in conjunction with the "public" and "specific" character borne by the institution of mortgage, fully, and for an unlimited period, guarantees the lender.[2]

[1] *Vide*: The Mortgage, pp. 64 sqq.

[2] "Publicity" is attained by its insertion in the official registers, which are at the disposal of every interested party, and the "specificity"—through the special description of the mortgaged property and the precision of the exact amount by which it is found to be burdened. (*Vide*: Dernburg-Dyovouniotis, *op. cit.*, II, §§. 308 sqq.)

The guaranteeing of the lender may be considered even as absolute where in connection with registration, certain reforms have been introduced in the institution of mortgage,[1] and where the amount of the loan is covered under all and sundry circumstances by the value of the estate.

Advantages of Mortgage Credit.—This full guaranteeing allows for the contracting of long-term loans repayable by instalments and against a comparatively cheap rate of interest, viz., conditions which the rural districts demand first and foremost.

Disadvantages.—On the other hand, the disadvantages of Mortgage Credit call for considerable attention. Among these are chiefly the depreciation in value to which the article serving for the guaranteeing of the loan is subjected,[2] the difficulties which to a great extent still exist as regards the transferring of the rights of the lender, and the annoying results following the non-timely fulfilment of obligations—always for the debtor, and very often also for the lender. These latter results are especially inavoidable in all instances where the mortgage burden is found to be disproportionately heavy in comparison with the actual value of the estate.

Tendencies of Legislation.—For these reasons, both the scientists and the legislators in various countries and at various periods are hesitating between the necessity for facilitating the economic reinforcement of small-holders and the creation of a protective fence against the ruinous results arising out of the misuse of Mortgage Credit.[3]

Some of them in attributing great importance to the good that Mortgage Credit can be instrumental in bringing to the small-holder, as well as to those indigent cultivators desirous of securing a small agricultural enterprise, found great hopes on the Mortgage Credit for elevating the agricultural proletariat from every point of view and endeavouring to facilitate the expansion of Agricultural Mortgage Credit by all possible means.

Others, on the contrary, considering that the small-holders,

[1] Cf. in connection: The Mortgage. Reforms Imposed, etc., pp. 65 sqq.
[2] Cf. Courcelle-Seneuil, *op. cit.*, p. 312.
[3] Cf. in connection also: pp. 158 sqq., and Gide, *Cours*, etc., I, p. 503.

who as a rule lack economic education, lean to the misuse of credit, and, therefore, have much more need to be kept under tutelage and guardianship and defended against such misuse and against the clutch of usury,[1] have decreed laws instituting the inalienability of certain categories of small holdings, having thus in a way excluded Mortgage Credit more or less from the latter.[2]

Nevertheless, neither the superiority of the advantages presented by Mortgage Credit, nor the possibility of reducing to a minimum the misuses to which it may be subject, can be seriously disputed.[3]

3. *What Conditions must Mortgage Credit fulfil, and what end must it aim at in Rural Districts?*

Where Mortgage Credit finds its application in rural districts it must respond to certain conditions. Most of these conditions are imposed also as regards urban Mortgage Credit, but the directions in the latter are often different and the results of non-compliance with the conditions are less heavy.

In order to render Mortgage Credit instrumental for the highest attainable benefits for rural districts it should be transacted under the following conditions[4] :—

(*a*) The amount of the loan should not exceed a fixed percentage of the value of the real property (calculated on the basis of the income derived therefrom); (*b*) the rate of interest charged should be as low as possible and in such a way as to allow such interest not to exceed a precise—in conformity with each separate instance—percentage of the income from the property, so that the payment of interest should not create disturbances in the enterprise and may be, at the same time, absolutely guaranteed; (*c*) the repayment of the loan

[1] Cf. below: Personal and Real Indebtedness, p. 156; also Limitations of Mortgage Indebtedness and Freeing from Land Burdens, pp. 157 sqq.

[2] Cf. below: The Creation of a Category of Inalienable Small Holdings, pp. 167 sqq.; also: The Reform of Legal Procedure as regards the Legal Executions in respect of Real Property, p. 170.

[3] Gide, nevertheless, pronounces himself very clearly against the facilitating of Mortgage Credit in a characteristic manner: " . . . plus on facilitera le Crédit Hypothécaire et plus on le rendra dangereux, plus on livrera les petits propriétaires aux usuriers." (*Vide: Gide, Cours*, etc., I, p. 506.)

[4] *Vide* also: pp. 65 and 67–8.

should be effected by instalments extended over as great a period of time as proves practicable; (*d*) the amortisation of the debt to be carried out obligatorily, by instalments; (*e*) the loans to be irrevocable as far as the creditor is concerned; (*f*) the indebtedness to follow a middle course between the debt in capital and the debt in rent, and to tend, in substance, to become shaped as a debt in rent rather than a debt in capital, without, however, becoming a debt–rent [1]; (*g*) to adapt absolutely the methods of granting the loans to the specific conditions prevailing in the rural districts; (*h*) all things pertaining to forcible executions and sales by auction, and, generally, all items connected with the payment of instalments and the repayment of loans in general, to be organised in a way corresponding to the state of things in the rural districts, and to exclude all and sundry misuses, injustice or arbitrary actions on the part of the creditor.

4. *Organisation of Agricultural Mortgage Credit.*

(*a*) *Nature and forms of Mortgage Institutions in general.*

Mortgage Institutions may be State, Municipal, Communal, or Public Utility Institutions, similar to the aforementioned, but emanating, as a rule, from a private collective initiative. But in many instances we notice only a simple participation by the State, Municipal, Communal and/or Public Utility Organisations, viz., we are confronted by a mixed situation. In other instances mortgage institutions appear under a co-operative form, and again as profit-making undertakings.

As regards the guise under which they appear, that of the " Banking Company on Bonds " is the one that covers all the above-mentioned instances. Only organisations of a public law, co-operative or public utility character may present themselves under the *sui generis* form of autonomous institutions. Lastly, the co-operative form is a suitable one only for the institutions basing themselves on the co-operative foundation.

[1] Cf. below: in The Real Estate Agricultural Credit, the fluctuations in the rates of interest, their genesis causes and consequences, p. 116.

(*b*) *The Mortgage Institutions of Rural Districts.*

(*aa*) *The Special Conditions of their Functioning.*—The Agricultural Credit Mortgage Institutions are those banking institutions that specialise in the transacting of Mortgage Agricultural Credit.

They secure the capital required—just as the ordinary mortgage banks—through the issue of special titles. Apart from the guarantee of the institution issuing the titles, and the securities resulting from the regulation of issue and the number of bonds, the said titles have in some instances as their main guarantee the real property serving as pledge,[1] and in others the whole of the mortgage assets of the institution. These titles appear under various forms and denominations, the principal among them being Mortgage or Real Property Bonds (*Obligations Hypothécaires ou Foncières*,[2] *Cédules Hypothécaires*,[3] *Lettres de Gage-Pfandbriefe*) or Mortgage Bonds, and *Lettres de Rente* [4] (*Rentenbriefe*). But all these titles are interest-bearing, and their rates of interest invariable.[5] We find but little difference among them as regards the methods followed in their issue and disposal regardless of the differences that may exist in the nature and organisation of the mortgage institutions concerned.[6]

These titles are either disposed of on the market by the respective bank of issue, or they are handed to the borrower in lieu of cash and the borrower is debited with their nominal value.

In the first instance, either a sufficient difference is fixed between the rate of interest of the bonds and that of the loans granted in order to cover the charges of the bank, or the latter are calculated when fixing the amount of the debt-sinking instalments.

Uniformity also prevails in the methods of granting the loans and as regards their form. The percentage of loans

[1] The American Mortgage-Bonds.
[2] *Vide: Code Civil Suisse*, Art. 875.
[3] *Ibidem*, Art. 876. [4] *Idem.*
[5] The Real Estate Bonds are sometimes Lottery Bonds, but this practice is being condemned practically by all leading scientists.
[6] *Vide:* Philippovich, *op, cit.*, p. 294.

does not exceed, and this also theoretically, two-thirds of the value of the real property involved, but, in substance—taking into account that valuations are, as a rule, made on a low level—it is seldom that this percentage reaches half of the price of the said property.

(*bb*) *Differences according to the type of Institution.*—On other points, however, there are substantial differences between the mortgage institutions, corresponding to their nature and their form.[1] We shall therefore divide the mortgage institutions into three big categories: The Public Law Institutions and, generally, those of Public Utility, the Co-operative Mortgage Institutions and the Mortgage Banks that are enterprises aiming at profit.[2]

(*cc*) *Real Estate Credit Co-operatives.*—We shall take as a typical instance of the Real Estate Credit Co-operatives the German "Landschaften," not only owing to their exceptional expansion over the world, but also on account of the fact that, despite their development during an existence of over a hundred and sixty years, they nevertheless have stuck to their economic foundations and the general lines characterising these.[3]

[1] *Vide* below: Comparative Remarks on the various systems of Organisation of Credit in the Rural Districts, pp. 180 sqq.

[2] The special analytical study of the mortgage institutions exceeds the scope of this present work. As regards, however, Real Property Credit Co-operatives we shall revert to these institutions on general lines, owing to the special interest they present from the agricultural point of view.

[3] The "Landschaften" were first established by a decree of Frederick the Great of Prussia, and such has been their general evolution that it may be said they have surpassed the most sanguine expectations even of those that studied and decreed their constitution. Amazingly enough, they have not ceased to correspond even to the present-day requirements of agriculture, regardless of the different foundation which the then and present-day economic and technical organisations are based upon.

The honour of establishing the "Landschaften" belongs to D. E. Bühring, a merchant who, having witnessed the beneficial activities of the Real Estate Credit Institutions in Holland, presented to Frederick II, King of Prussia, in the beginning of the year 1767, a project for the organisation of "Real Estate Credit Co-operatives." The original project was studied and modified by Frederick himself, and his Councillor Von Carmer, and a year and a half later—on August 29th, 1769—the decree constituting and regulating the activities of "Landschaften" in Prussia was published.

The first "Landschaft" was established in Silesia in the middle of the year 1770, and institutions of this type were not slow to cover, first Germany and later the whole of Central and Eastern Europe. In 1802 they appear in the Baltic countries, in 1825 in the Kingdom of Poland, in 1836 in the Scandinavian countries, in 1841 in Galicia, in Hungary in 1862, and two

The co-operative idea is the foundation of the Landschaften. A number of owners in partnership constitutes an institution of Real Estate Credit, which undertakes the securing of loans required through the medium of issuing bonds, guaranteed, under a mutual liability, by the real estate property of the co-operators.

The disposal of the said bonds is effected either by the institution itself or by the partners contracting the loans. The number of bonds issued may in no case exceed the actual value of the real estate property appertaining to the co-operative. The bonds issued bear a stable interest, but their price, when placing them, fluctuates in conformity with the conditions of the stock exchange (or of the market of capital in the case of big amounts). No loan is granted in excess of half, or at the utmost two-thirds of the value of the real property involved. The valuation of the property is carried out by authorised members of the board with the greatest rigour. Any delay unaccounted for in the repayment of the instalments due has as an immediate sequel the selling by auction of the real property of the defaulting debtor. This contributes to a great extent to the timely fulfilling of their obligations on the part of the co-operators contracting the loans. The defaulting debtors are judged with severity but also with justice, viz., the interests of the corporation are taken into consideration first and foremost, without, however, bringing undue pressure to bear upon the debtor whenever serious reasons are put forward for the delay in the payment of an instalment.

The "Landschaften" are governed by a board, and the general assembly of the members is the supreme body.

The executive of these co-operatives is the director, representing the board before all private parties, the courts, the State authorities, etc.

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years later in Russia. Finally, they extended their activities over the whole world.

The Real Estate Credit Co-operatives, although governed by the same principles, do not keep their characteristics unchanged in all these parts of the world. In some places they appear under the type of Public Law Institutions (Baltic Countries, old Kingdom of Poland, Galicia) and elsewhere under that of Private Law (Sweden, Norway, Hungary, Russia).

(*Vide*: Tcherkinsky, *Les Landschaften et leurs Opérations de Crédit Hypothécaire en Allemagne*; also: Acerbo, *op. cit.*, pp. 29 sqq.)

The "Landschaften," despite their being institutions of public or of private law as the case may be, are self-governed and they unite in their unions. But their self-government is adjusted well within the frame prescribed by the law, and they are subject to the control of the State.

(c) *Non-Mortgage Institutions and Private Persons transacting the Mortgage Credit.*

Organisation for the purpose of transacting mortgage credit and specialising therein is, from every point of view, imposed. Nevertheless, even at the present time, it may be said that mortgage credit to a great extent, especially in rural districts, is being transacted—more or less without a system and a set policy—by organisations of every description, by banking and other institutions not specialised for this credit, and, on the other hand, by private persons, aiming at placing their available capital on more or less long-time terms. Neither of these institutions, nor, for sounder reasons, the private lenders—can ever transact mortgage credit in a satisfactory manner.[1]

5. *Branches of Agricultural Credit in which the Mortgage Credit finds its application.*

Mortgage credit is mainly applied among those branches of Agricultural Credit requiring long-time terms for the repayment of loans, and especially in Real Estate Agricultural Credit [2] and the Agricultural Ameliorations Credit.[3] This is principally because of the formalities and the expenditure involved, as a rule, in connection with the registering of a mortgage.

But its utilisation is not excluded in instances when the landowner cultivator requires a substantial sum which is to remain in his hands for a long term, when he is about to put under cultivation a farm altogether lacking in stock (*cheptel*) or capital for current exploitation.

In exceptional cases we meet also with the opening of accounts current against a mortgage of real estate.

[1] Cf. below: The Non-Mortgage Institutions in their transacting the Real Estate Agricultural Credit, p. 133.
[2] Cf. below, p. 112. [3] Ibid., p. 137.

6. *Importance of the Mortgage Credit in Agriculture.*

The immobilised capital (land, buildings and everything closely connected with land) fluctuates between two- and three-fifths of the whole capital in intensively exploited agricultural enterprises and reaches four-fifths in non-advanced agriculture. As a natural result, therefore, Real Estate Credit in all its varieties, of which the principal is the form of mortgage, represents in agriculture greater importance than in any other branch of production.

The healthiness and the rationalisation of agricultural production become quite impracticable without the existence of sufficient long-term credit based on the guarantee of immovable property. The existence, therefore, of a well-organised Agricultural mortgage Credit represents a *sine qua non* condition for setting in order and synchronising the economic organisation of agriculture in any country.

And the good organisation of this category of Agricultural Credit should be the basis of agricultural policy.

CHAPTER VI

THE MAIN BRANCHES OF AGRICULTURAL CREDIT

A. AGRICULTURAL CREDIT FOR CURRENT EXPLOITATION

(1) AGRICULTURAL Credit for current exploitation has as its object the strengthening of the circulating capital of agricultural production,[1] viz., of current agricultural expenditure. The destination and the subsequent utility of this category of agricultural capital are sufficiently indicative of the importance of this branch of Agricultural Credit for rural economy.

Agriculture certainly requires usually capital of all categories; but, assuming that land is available, the first need, and that which is immediately felt, is for circulating capital. Without it, the existence of any agricultural undertaking becomes utterly impossible, and the other existing categories of capital are rendered unproductive. It is, therefore, only right that circulating capital, along with that of consolidated means of exploitation, should represent the agricultural capital *par excellence,* and the credit which reinforces them, the Agricultural Credit also *par excellence.*[2] The eventual extent of an agricultural enterprise and the existence of sufficient dwellings and farm buildings are of no value if they have not the requisite supply of current capital and of consolidated means of Exploitation; on the contrary, it would prove preferable to have a smaller enterprise provided with an inferior capital in farm buildings but sufficiently provided with exploitation capital.

The necessity of current exploitation capital being early felt becomes greater day by day, following on the intensi-

[1] Regarding same *vide:* The Circulating Agricultural Capital, p. 27.
[2] Cf. Agricultural Credit within the frame of Credit in general, p. 2, § 4.

fying of agriculture. Owing to the evident necessity for reinforcing the current exploitation capital before any other, and also owing to the advantages presented by it, mainly in view of the comparative shortness of time-limits and the greater yield of circulating capital,[1] the Current Exploitation Credit was the first to be applied and transacted and is the most developed among the branches of Agricultural Credit. Nevertheless, it cannot be said to have reached the level of fully serving the needs of agriculture in circulating capital.

(2) *Special Characteristics of the Agricultural Credit of Current Exploitation.*

The special characteristics of the Agricultural Credit of Current Exploitation are mainly concerned with time-limits and methods of transaction.

(a) *Time-Limits in the Agricultural Credit of Current Exploitation.*—This is a short-term credit, viz., the loans, being granted at the period of cultivating the soil, the sowing, or during the period preceding harvest, or whenever a special necessity may arise, are repayable, as a rule, during the harvesting period, *i.e.* usually at a minimum of six months and maximum of twelve months after being contracted.[2]

The characterising of these time-terms as "short term" may appear strange to those not acquainted with things agricultural, and versed in commercial transactions of credit. But Agricultural Credit is bound to wait for the completion and closing of the productive circle, which takes usually a six-months minimum in agriculture. Additionally—and this startles still more those unacquainted with agricultural actualities—in many cases in the transacting of Agricultural Credit the extension, under any guise, of the due date for the repayment of the loan is unavoidable, and thus the repayment of "short-term" agricultural loans may *de facto* be extended to over a year.[3]

[1] *Vide:* The Circulating Agricultural Capital, p. 27.
[2] The six-months time term is rare. Usually the so-called Cultivation Loans are of a nine-months term.
[3] *Vide:* pp. 210 sqq.

(b) *Rate of Interest.*—As already seen,[1] the most profitable of agricultural capital is the circulating capital. As a natural result, for its reinforcement, the agriculturist must pay comparatively higher rates of interest than in the case of other categories of agricultural loans. Thus, as regards at least the interest rate, the competition of this branch of Agricultural Credit on the money market [2] is comparatively easier.

(c) *Guarantees.*—In the credit of current exploitation the guarantees are, in some cases personal, and in others real.[3]

As regards the first, these present but a small interest in themselves, owing to their slight bearing on Agricultural Credit, because of conditions prevailing in rural districts.[4]

On the contrary, guarantees based on mutual liability, and especially that of a co-operative organisation, represent the ideal foundation for the transacting of the Agricultural Credit of Current Exploitation.[5] As regards real guarantees in the transacting of the Agricultural Credit of Current Exploitation, these are very rarely immovable, on account of the expenditure and formalities involved.[6] The contracting of loans against pledges is the more appropriate and the more frequent method of loans against a real guarantee.[7]

Nevertheless, in practice no extensive use is being made even of this latter method, in view of the difficulties connected with safe warehousing in a space owned by the creditor, or by a third party, of the goods offered in pledge, and of the disadvantages and difficulties raised by the

[1] Cf. The Circulating Capital, p. 27; also: The Rates of Interest in Agricultural Credit, p. 19.
[2] *Vide*: pp. 21 § (2), 35, etc.
[3] *Vide*: pp. 58 sqq. and 75 sqq.
[4] Cf. Personal Guarantees in the Agricultural Credit, p. 58; also: Individual Personal Agricultural Credit, p. 75.
[5] *Vide*: Guarantees in the Agricultural Credit, pp. 57 sqq.; also Personal Mutual Liability Agricultural Credit, p. 77 and Agricultural Co-operative Organisations as a Factor of Canalisation, etc., p. 78.
[6] Cf. The Real Guarantees, pp. 59 sqq. and The Real Agricultural Credit, pp. 89 sqq.
[7] *Vide supra*, and especially: Agricultural Credit against Pledges, pp. 90 sqq.

various special institutions of guarantees against pledge decreed in Agricultural Credit.[1]

In many instances, use is being made of the "Privilege."[2] Lastly, in certain exceptional cases (losses and destruction independent of the agriculturist's own will), the State itself guarantees the repayment by the agriculturist of the loan to the credit institution. For some time past, efforts have been, and are being made to utilise insurances as guarantees.

(3) *Subdivisions of Current Exploitation Credit.*

In conformity with the foregoing, the Agricultural Credit of Current Exploitation is subdivided into two large, altogether separate branches: the Personal Agricultural Credit,[3] which is called Agricultural Credit proper, and the Current Exploitation Credit against pledges.[4]

(4) *Insufficiency of the Current Exploitation Credit.*

As already explained, despite the comparatively higher rate of interest offered by the Current Exploitation Credit in connection with other Agricultural Credit branches and the comparative shortness of its time-limits, a lack of Agricultural Credit of this category is also noticeable.[5] This scarcity may be attributed to two factors, of which some are indivisible from the nature of the Current Exploitation Agricultural Credit itself, viz., the inner factors, and others totally unconnected with it and mainly due to the surroundings, *i.e.* the exterior factors.

(a) *The Inner Factors.*—Among these we may instance the duration of time these loans require. It is true this duration is not great in comparison with that of other agricultural loans. But, as far as the money market is concerned, it cannot be considered as short in comparison with the credit time-limits of other productive branches, and especially those prevailing in trade and industry. Also the irrevocability of the agricultural loans of current

[1] Cf. The Real Guarantees, pp. 59 sqq.; also: The Agricultural Credit against Pledges, pp. 90 sqq.
[2] Cf. The Privilege, in chapter: The Guarantees in Agricultural Credit, p. 69.
[3] *Vide* also: pp. 75 sqq. [4] *Vide* also: pp. 90 sqq. [5] *Vide*: p. 101.

exploitation and the uncertainty as regards their timely repayment create great difficulties for securing economic means.[1] Additionally, the level of the possible rates of interest, although it appears high in comparison with that of other Agricultural Credit branches, remains invariably, or should remain, lower than the one prevailing in other productive branches (commerce, industry, etc.). In comparison, therefore, with the current interest rates on the money market, even the short-term Agricultural Credit is unprofitable. Lastly, the guarantees used in the credit of current exploitation are not always sufficient, and they are also subject to defects and disadvantages, both emanating, in certain instances from defective legislation, and in other cases from the very nature of agriculture and of the rural surroundings.

(b) *The Exterior Factors.*—The exterior factors are of no less importance. Among these, we have to specify : (1) the uncertainty as to the outcome of the agricultural enterprise, a psychological influence, making capital fight shy, even when the guarantees forthcoming appear to be sufficient; (2) defects in legislation, principally those connected with legal procedure, and (3) the system of exploitation. That is to say, wherever the agriculturist is not the owner of the land, the cultivator undoubtedly offers a lesser economic value and guarantee, which affects accordingly his personal credit ; (4) the meeting of the needs in Current Exploitation Capital is also greatly influenced by the conditions under which agrarian reform has materialised and the land ownership situation arising out of these ; (5) eventual political anomalies and disorders, and (6) monetary instability and fluctuations.

(5) *The Securing of Capital required for Current Agricultural Exploitation Credit.*

The sources of capital required for the Current Exploitation Credit are : (*a*) ordinary capital of the credit institutions, (*b*) savings deposits, (*c*) sums eventually disposed by the State under any denomination (deposits with Agricul-

[1] Cf. Time-Limits in the Current Exploitation Credit, p. 102.

tural Credit institutions, grants, loans, etc.), (*d*) issue of values based on pledges conceded by agriculturists to Agricultural Credit institutions, and (*e*) the rediscounting by the Institution.

The value and importance of each of the above sources depends principally on local conditions and the destination of the loans.

(6) *The Organisation of Agricultural Current Exploitation Credit.*[1]

(a) *Institutions indicated for the transacting of Current Exploitation Agricultural Credit.*—In appearance there are no obstacles in the transacting of the Agricultural Current Exploitation Credit by any credit institution whatsoever, agricultural or otherwise.

Specialisation, however, is imposed, not only as regards time limits and guarantees, but also the more general adaptation to agricultural affairs.

As a matter of fact, what is of the utmost importance in the transacting of Agricultural Credit is the knowledge of the rural surroundings and the adaptation of methods suited to the latter, especially as regards the Current Exploitation Credit—whether this is granted on the basis of personal guarantees, against pledges, or on the basis of a privilege—an acquaintance with persons and undertakings and their constant control and supervision are absolutely necessary.

As regards the first and the last instance (personal guarantees and privilege) this is self-evident. But even with the granting of credit against pledges, the matter is seldom different, on account of the special form of the pledge in rural districts in most instances.[2]

[1] In the history of Agricultural Credit of Current Exploitation, Scotland appears as the pioneer, for since the beginning of the eighteenth century this form of credit was given by banks of issue and other banks in a sufficiently satisfactory manner.

In other countries, only at the beginning of the next century do we notice endeavours to differentiate between this and the commercial credit, although, as a rule, unsuccessfully (cf. *Acerbo, op. cit.*, p. 56). Finally, the first serious step towards specialised Agricultural Credit institutions aiming at serving current exploitation requirements was made in Sweden during the second half of the nineteenth century (Law of 27th June, 1867).

[2] Cf. The Pledge, pp. 59 sqq., and the Privilege, p. 69; also: The Agricultural Credit against Pledges, pp. 90 sqq.

The necessity, therefore, arises for Credit Institutions undertaking Current Exploitation Credit operations to have a dense network of branch offices and agencies, with a well-trained staff keeping in constant touch with the agriculturist, or, otherwise, that institutions of Agricultural Credit should keep in close touch and collaborate in absolute harmony with the agricultural co-operatives, and especially the credit co-operatives.

The most appropriate solution consists in the transacting of the Current Agricultural Exploitation Credit by the credit co-operatives themselves, who are most certain to possess the requisite organisation.[1]

(b) *The Existing Organisation.*—Notwithstanding the foregoing, in practice the Current Exploitation Credit has been transacted and is being transacted, apart from the ordinary city banks, by special agricultural banks of every description (irrespective of short-term or long-term credit), by all kinds of savings banks, by states, municipalities and communes, and in certain instances even by institutions of a philanthropic order—not to speak of private individuals. But the most serious and praiseworthy efforts are due to the Agricultural Credit Co-operatives (of personal credit).[2]

Besides, in most instances the remaining institutions transact this credit through the channel of the credit co-operatives.

(7) *How the Satisfactory Meeting of Needs in Current Exploitation Credit could be attained.*

Investigating the inner factors of the insufficiency of Current Exploitation Credit, we notice that we are able to influence only the guarantees for the purpose of attracting capital to agriculture under the shape of Current Exploitation Credit. As a matter of fact, we do not dispute that in certain instances the increased yield of such capital in agricultural enterprises is such as to make it practicable to pay a higher rate of interest in order to improve the

[1] Cf. The Co-operative Organisation as a factor for the canalisation of Credit to Rural Districts, p. 78; also: pp. 180 sqq. and 190.

[2] Cf. The Mutual Liability Personal Agricultural Credit, pp. 77 sqq.

competing capacity of this style of credit on the money market. But the results to be attained will prove on the whole so poor, and so uncertain, that they cannot be depended upon to any considerable extent. As regards time limits, any endeavour to shorten them for competition purposes would be absolutely adverse to the needs of agriculture which Agricultural Credit aims at serving. We must, therefore, turn all our attention in the direction of guarantees. A perfect co-operative organisation coupled with a status for transactions against pledges and privileges which inspire the fullest possible confidence, and the utilisation as an auxiliary guarantee of insurances, should serve as the best means for any endeavour to improve on the inner factors of the conditions of transacting the Current Exploitation Credit.

Reverting now to the exterior factors, we need not enlarge upon the necessity of establishing an order of things which would inspire full confidence, both from the political and the financial side, for the existence of any credit in general. Also, wherever the standing legislation presents any obstacles, it should be revised.

The lack of a sufficient economic superficies by the agriculturist, arising from the fact that very often he is not the owner of the land he cultivates, as well as the consequences of the application of agrarian reform, could be met and overcome by efforts of a co-operative organisation.

The only factor against which very little could be done is the uncertainty regarding the ultimate result of any agricultural enterprise, and its psychological effect on capital. But even this could be improved upon to a certain degree, if confidence is created in the agricultural economy of the district, and especially if the co-operative concerned has as its guide the teachings of science, both technical and economic.

Summing up, we may remark that the factors on which we should turn all our attention are, mainly, the exterior ones, and among inner factors, that relating to guarantees.

3. THE CONSOLIDATED MEANS OF EXPLOITATION AGRICULTURAL CREDIT

(1) *Some General Notions.*

The Credit for Consolidated Means of Exploitation is the one aiming at the reinforcement of capital representing the consolidated means of exploitation of an agricultural enterprise.[1]

But this credit has, usually, as its main object the facilitating of the acquisition by the agriculturist of live-stock, machinery and implements, which represent the consolidated means of exploitation, because most of the remainder (animal or farm dung, litter, etc.) is produced, as a rule, on the farm itself.

This category of agricultural capital has always been of the greatest importance and may be compared with that of power in industrial works. But the rapid progress of mechanical science and its manifold application to agriculture, also the necessity for intensifying and industrialising agriculture, could not but have a corresponding repercussion on the needs of agriculture for capital, especially for equipment, which needs could not be met out of the means already at its disposal. Under the circumstances, it was but natural that the Consolidated Means of Exploitation Credit should have taken an exceptional and ever-increasing place within the framework of Agricultural Credit.

Does the Agricultural Credit of Consolidated Means of Exploitation represent a separate Agricultural Credit branch?

It is true that there is not as yet a totally separate branch of credit for consolidated means of exploitation. It is usually transacted in conjunction with Current Exploitation Credit, with which it forms a single branch, that of Exploitation Credit. In other instances it is found with the Ameliorations Credit and the Real Estate Agricultural Credit in the long-term Agricultural Credit. But these facts do not dispossess it of its independence.

As a matter of fact, this style of credit has a point in common with the Credit of Current Exploitation, that

[1] Cf. The Consolidated Means of Exploitation Capital, p. 27.

it serves for the exploitation of the agricultural enterprise, and does not correspond with the Ameliorations Credit and the Real Estate Credit even as regards the length of time-limits, under which point all three categories are concentrated.

But, if historical reasons, arising from the rapid evolution of Agricultural Credit, or making the best of the state of things within this short period of time, have contributed to the shaping of the division and classification of the various Agricultural Credit branches, which is far from being a scientific one, and corresponds but little to the object aimed at, this does not exclude with the passage of time the separate shaping also of this branch of Agricultural Credit as has happened with the Agricultural Ameliorations Credit.

(2) *The Characteristics of the Agricultural Credit for Consolidated Means of Exploitation.*

It results from the foregoing that there are several points in which the Agricultural Credit for Consolidated Means of Exploitation substantially differs from some, or even from all of the Agricultural Credit branches. These differences result in corresponding requirements as regards the methods of transacting this style of credit.

(a) *The Time Limits.*—First and foremost, as regards the time limits, this credit demands, in most instances, a duration for the loan of from three to six years, which may extend on occasions up to ten years. It is, therefore, a case of medium-term credit, and the debt-sinking by instalments method is imposed. This credit bears, in common with the remainder of the categories of Agricultural Credit, the condition that the loan is not revocable by the lender.

(b) *The Rate of Interest and the Guarantees.*—The interest rates that it can bear are, as a rule, low, at any rate lower than those prescribed for Current Exploitation Credit transactions.

Lastly, as regards the *guarantees*, personal ones are excluded, and land guarantees are rarely reverted to. The Agricultural Warrant and the Privilege, used mostly, are the ones indicated for the purpose.

(3) *The Insufficiency of Credit for Consolidated Means of Exploitation.*

It is true, that practically in all countries special care has been taken for facilitating the supply of the agriculturist with consolidated means of exploitation, and especially so in countries where agrarian reform, or colonisation, has materialised. But the needs of agricultural exploitation have been of such a portent, and were so generalised, that their satisfying has proved, by nature, very difficult.

(a) *The Inner Factors.*—To make things still more difficult, the requirements as regards the duration of the loans, and their irrevocability, are such as to discourage the attraction of capital. The guarantees, on the other hand, which theoretically ought to be real ones, in practice are but conventionally such, owing to the fact that agricultural pledges can but rarely be taken away from the agricultural enterprise without being subjected to a serious reduction in their value and, on occasions, to total destruction.

The situation certainly is being considerably improved wherever insurances are contracted, but the latter bring about additional burdening, which it is a question whether the enterprise is always in a position to bear.

(b) *The Exterior Factors.*—Among the exterior factors of insufficiency of credit for consolidated means of exploitation, the gaps or defects in legislation present exceptional importance. Specifically, defects of procedure constantly keep capital at a distance, whenever quick and effective proceedings against bad faith debtors are somewhat problematic. There is also no great readiness noticeable for the influx of capital for consolidated means of exploitation where the cultivated area does not belong to the agriculturist, in view of the fact that his lack of permanent settlement considerably reduces his credit in respect of medium-term placing of capital in loans. On the other hand, during the transitory period of application of agrarian reform, the needs in capital for consolidated means of exploitation are found to be, as already seen, greatly increased. Further, it is evident that the other exterior factors which generally

present obstacles, for example, political and monetary instability, are always adverse to any influx of capital for consolidated means of exploitation.

(4) *The Overcoming of Difficulties.*

The creation of an absolute reliability as regards the guaranteeing of the credit granted, due on the one hand to the Agricultural Warrant which inspires every possible confidence, and on the other to the possibility of sufficiently shortened and effective legal proceedings, represents the principal point upon which we can lay stress. The co-operative organisation, certainly, may also be of assistance, and its importance, in spite of the existing difficulties, proves, at least, equal to that displayed in regard to the personal credit, and it should be resorted to in every case.

We need not enlarge upon the necessity of not leaving any stone unturned for the purpose of averting all adverse exterior factors preventing the influx of medium-term credit.

(5) *The Organisation of the Credit for Consolidated Means of Exploitation.*

This branch of credit has not got a history altogether to itself, since, in reality, it does not yet exist as an independent branch, also, although its importance has greatly increased, this increase is but recent.

As regards institutions which have concerned themselves recently with its transaction, we must look for these among those occupied with short- or long-term Agricultural Credit irrespective of their nature and form. The State banks and services have specially occupied themselves with this category of credit, especially where agrarian reform has been applied, and colonisation has taken place; also in the countries affected by the late War operations, wherever credit for agricultural reparations has been granted.

For the future, without excluding the possibility of this credit being given by other Agricultural Credit Institutions, it ought rather to form a special branch within the Agri-

cultural Exploitation Credit institutions, handling the personal, and against pledges, Agricultural Credit. Their whole organisation should be suitably rearranged so as to comprise the two branches of the Current and the Consolidated Means of Exploitation Credits. In any case, the utilisation, even indirect, of the agricultural co-operatives, credit or otherwise, is indicated.

(6) *The Securing of Capital required.*

The capital required for the Consolidated Means of Exploitation Credit, in view of the scope of these loans, and their duration, is, and ought to be, to a considerable extent, obtained by direct or indirect State aid of varying degree or through organisations of public law. The loans are granted either directly to the agriculturists, as a rule through the medium of their co-operatives, or, more preferably, through the channel of Agricultural Credit institutions. The latter dispose, certainly, of means for the purpose, but these represent but a small percentage of the total sums required and granted. Another source is the issue of titles guaranteed by Agricultural Warrants of the borrowers. Lastly, an important source for the future may be found in the one not sufficiently used up to the present, namely, the industry of machinery, implements and of slowly assimilated fertilisers. This would be greatly facilitated by granting to such industries guarantees of the Agricultural Credit institutions, or, if need be, of the State itself.

C. Real Estate Agricultural Credit

(1) *The Distinction between Real Estate Agricultural Credit proper and Ameliorations Credit.*

Real Estate Agricultural Credit and Agricultural Ameliorations Credit have many points in common, especially as to time limits, guarantees, the method of debt repayment, etc., but they differ radically as regards their economic predestination.

Real Estate Agricultural Credit has as its main object

the reinforcing, ordering, concentrating and increasing of agricultural landed property by freeing the latter from onerous burdens, by concentrating portions of widespread lands (*remembrement*), by purchasing and paying for holdings belonging to third parties (usually, the other heirs in common). It also serves for the erection of the necessary farm buildings and plant, the acquisition of farming property, and other similar objects.

In this connection there is, usually, no increase of income proper from the farming property arising out of the capital loaned.

The Ameliorations Credit, on the contrary, aims exclusively at realising on the farming property, real estate or agricultural improvements, which result in an increase of income from the land and also of value of the farming property.

The Real Estate Credit simply facilitates and allows for a cheaper and more systematic exploitation of the land, whilst the Ameliorations Credit influences agricultural economy in a more decisive way, to the extent, in some instances, of even changing its physiognomy.

Substantial differences are also shown in the transacting of these types of credit. The distinction, therefore, between Real Estate Agricultural Credit and Ameliorations Credit is unavoidable.

(2) *Character and Basis of Real Estate Agricultural Credit proper.*

The definite incorporation of capital in the land, which is brought about by Real Estate Agricultural Credit, is not without consequences.[1] We may even say that this creates most of the characteristics and the requirements of this branch of Agricultural Credit.

The question, therefore, arises as to whether, under the circumstances, Real Estate Credit ought to be qualified as actual "transacting of credit," and not rather as simple

[1] Cf. The Real Estate Capital, p. 27; also: The Physical and Economical Limits of Agricultural Production, and the Phenomenon of Diminishing Returns of the Land, etc., p. 16.

"placing of capital." It is clear, however, that, as regards this distinction, the "intention" of the capital should be taken to be the criterion, as well as the existence or the lack of a system in carrying out credit transactions. In this instance there cannot be any doubt that the Real Estate Agricultural Credit carried out as such on a definite system, which undoubtedly occurs in the credit institutions specialising therein, irrespective of the fact whether they are transacting it as their principal and sole branch or along with other Agricultural Credit branches, cannot be regarded simply as a placing of capital.[1]

(3) *Special Characteristics of the Real Estate Agricultural Credit and of its Elements.*

Granted that in Real Estate Agricultural Credit one cannot rely, for the repayment of the loan and the payment of interest on it, on the increase of income from the agricultural enterprise as a result of the loan, since the reproduction of the land capital must be excluded,[2] there remains, as a rule, but one medium for the amortisation of land loan obligations, namely, the limiting of expenditure of the estate within precisely the bounds of the payable instalment, so as to allow for the difference between the income from the property and the reduced expenditure to be used for the service of the real estate loan.

(a) *The Interest.*

1. *The low productivity of Real Estate Agricultural Capital and the interests charged.*—In conformity with the above, it is essential that the rates of interest for Real Estate Agricultural Credit should be exceptionally low, and, in any case, the rate of interest taken into account when calculating the value of the output should be considered as the maximum rate permitted. Therefore, one of the most difficult problems

[1] Those contending the contrary are, it would appear, led astray by the appearances which create the long-term duration of the loan and its debt-funding method. But time is something very relative in itself, and it is not right that the method of funding the debt on the instalment plan should represent a proof of "placing" capital.

[2] *Vide*: The Real Estate Capital, in chapter: The Categories of Capital in Agriculture, p. 27.

for Real Estate Agricultural Credit to solve is that of the rate of interest, owing to the fact that the demand for this style of credit is bound to follow competition on the money market and the market of capital, and the level of the rates of interest depends upon the force of competition.

2. *The possibility of limiting the Interest paid.*—Reduction of the interest paid on Real Estate Agricultural Credit could be attained, at least theoretically, in two different ways:—(*a*) by aiming at, and obtaining, low rates of interest, and (*b*) by limiting the amounts of the loans. But, as already seen, the first is not easy to realise, nor the second possible and advisable over and above a set limit, defined by the needs in credit imposed by the principles of agricultural and economic science, and especially so in conjunction with the possibilities for additional payments offered by the income from the farm property.[1]

3. *The Fluctuations in Rates of Interest and their consequences.*—(*a*) When the agriculturist contracts a long-term loan, he certainly has computed and regulated his budget on the basis of the interest he has undertaken to pay. Any rise, therefore, in this interest in the future cannot but upset his provisions and have disastrous consequences for his economy. That means that the rates of interest on real estate agricultural loans cannot suffer any change, after the contraction of the loan, unless it is a change to their being lowered.

(*b*) Irrespective of above, generally, the up-and-down fluctuations of the rates of interest influence correspondingly but in an inverse way, the fluctuations of land value. That is to say, any increase in the interest rate corresponds to a reduction in the value of the land, whilst, on the contrary, any decrease in the interest rates brings about a corresponding increase of the land value. In instances when the fluctuations are operating on a comparatively large scale, irrespective of their rise or fall, there may result corresponding changes, and even serious disturbances, in the land ownership situation of the country.

In the case of increased rates of interest, the resulting

[1] *Vide* below: The Limit of the Percentage of Land Indebtedness, p. 123.

reduction in land value renders the existing land indebtedness disproportionately large in comparison with the current value of land, the creditors hasten to recover their claims, and, as a result, farming property is disposed of by forced auction sales with great loss to its owners.

Whenever, on the contrary, the level of interest rates tends downward, the resulting increase of land value leads the owners to dispose of their property from profiteering considerations, the funding of the debt becoming easier within the measure of the lowering of the interest rates.

Fluctuations in interest rates, therefore, bring about, in substance, the same result as regards land ownership, irrespective of their upward or downward tendencies.

(b) *The Nature and the Form of the Loans.*

1. *The Genesis Factors.*—The foregoing remarks, which are attributed to the combination of "capital debts" with the valuation method used for estimating the value of the land, deserve special attention and study.

Rodbertus [1] considers that agricultural activities are incompatible with capital indebtedness, it being taken for granted that land, owing to its very nature, produces simply land rent. And the passing of the land value on to the product is impossible, hence the exclusion of the possibility of reproduction of the capital. According to him, the debt in capital represents the genetic factor of the credit needs of landed agricultural property.

2. *The Solution proposed for avoiding this evil: the Evaluation in Rent.*—From this the conception is derived that for landed property the system of indebtedness in rent or in income (*Dettes en Rentes*) should be substituted for that of indebtedness in capital. The guaranteeing and the redemption of the debts of a farming property out of the actual rendering of the land, in conjunction with the valuation of the soil in rent (instead of in capital), also the measuring and regulating of the limits of land indebtedness on the basis of the rendering of the land over a given period of time, would therefore present a *prima facie* right solution

[1] *Vide:* Rodbertus, *Kreditnoth des Grundbesitzes.*

of the question.[1] But, if we examine things somewhat more closely we shall soon find that this solution does not hold good.

As a matter of fact land income (*Rente Foncière*) by becoming capitalised is rendered negotiable.

3. *The Proper Solution: Long-Term Interest with Debt Sinking-Fund.*[2]—There is therefore only one solution left: to establish in connection with Real Estate Agricultural Credit long-term irrevocable loans, repayable by annual debt-redemption instalments, calculated on the yearly income derived from the farming property. Thus, the undertaking of obligations in capital is, in substance, avoided, as well as the disadvantages and risks emanating from the non-reproduction of land capital, which, other conditions being equal, are correspondingly smaller in the inverse order to the length of the time-limit for the redemption of the debt.

4. *The prevailing form of Land Loans.*—That the long-term debt redemption by instalments form is the one imposed, is being proved by the fact that it has finally prevailed even where there was an absolute possibility of giving the preference to indebtedness in income, under equality of conditions for the other factors.[3]

5. *The Debt-Sinking Repayment and the measure of strict and unrelenting Encashment of Instalments.*—But, apart from the debt-sinking by instalments, the special conditions of agricultural production demand something

[1] Cf. Philippovich, *op. cit.*, p. 287.

[2] The debt in rent and the one in capital to be repaid on a long-term debt-redemption basis, bear a similarity, inasmuch as for both of them the repayment of the debt is usually realized by regular annual instalments up to the full redemption of the debt.

But, whilst in the case of a debt in rent any eventual non-timely payment of an instalment cannot have any other consequences over and above those related with the non-payment of the instalment in question, with regard to a debt in capital to be sunk on a long-term instalments basis, every delay in the payment of the debt-redemption instalments renders claimable the whole of the remainder of the debt.

[3] Already at the end of the nineteenth century, Buchenberger and Brentano bear testimony to the predomination of the land loans in capital under their long-term debt-sinking form, irrespective as to whether they be revocable or irrevocable ones (*Vide:* Buchenberger, *Agrarpolitik*, II, p. 305, and Brentano, in: *Verhandlungen des Vereines für Sozialpolitik* for the year 1894, LXI, p. 296), and, little later, Philippovich points out the total eclipse of debts in permanent rent (*Dettes en Rente Permanente*) under the shape of farming property renting which was formerly usual (*Vide:* Philippovich, *op. cit.*, p. 289).

additional, namely, a comparative leniency in cases of a justified inability on the part of the agriculturist to pay in one or even several instalments.[1] As a palpable reason in this respect, not only should an eventually bad harvest be considered, but, equally, the necessity of carrying out improvements considered to be unavoidable.

A strict, therefore, and severe encashing of the debt-sinking instalments is out of place. Any request for delaying a payment of an instalment should be examined with the double basic criterion of the advisability of this extension of the due date in the interests of the progress of the agricultural enterprise, and, on the other hand, bearing in mind the specific interest of the agriculturist to see, as soon as possible, the lightening of his farming property from the burdens weighing upon it.

6. *The Debt-Sinking Instalments.*—Especial attention should be paid to the fixing of the debt-sinking instalments. Should these be too high and disproportionate to the income from the farming property, the failure of the object of the loan is assured beforehand, and, in most cases, would bring about the agriculturist's ruin. Where there is the remotest doubt as to how far the agriculturist will be able to respond to the obligations undertaken on the contraction of the loan, repartition of the debt-sinking instalments to cover a greater number of years is imposed. Otherwise, even a single case of difficulty may create for the agriculturist such disturbance in his productive work that it would probably prove far more advisable for him to avoid contracting any loan at all.

7. *The Irrevocability of Loans.*—In cases when the creditor is entitled to revoke a long-term debt-sinking by instalments loan—be it even at a notice of two to three years previous to the date he will fix for the untimely calling in of his loan—this loan ceases to be, in substance, a long-term one. But this untimely calling in presupposes, at least theoretically, a mobilisation of real estate capital equal to the sum of loan that is to be returned previous to maturity date—a thing which is contrary to the very nature of the

[1] *Vide* also below; pp. 210 sqq.

said capital.[1] As a matter of fact, even in the case of ameliorations, it is rare that the liquidation and the repayment of the loan, within a shorter term than the one originally calculated upon, becomes practicable; regardless of the fact that in this special case there exists, at least *prima facie*, an increase of income from the farming property due precisely to the utilising of the capital which formed the object of the loan. How then could it become possible for such a premature return of a land loan proper to be made, when the real estate capital not only is not being reproduced annually, but also the land loan does not usually result—all proportions reserved—in an increase of the income from the farming property, so as to allow for the securing, at least to a certain extent, out of these additional means, of the sum required for the repayment prior to the due date?

The only thing left would be the contracting of a new loan, under very unfavourable conditions as a rule, in order to effect the repayment of the former loan.

Therefore, as far as real estate agricultural loans are concerned, the possibility of their being revoked by the creditor is absolutely excluded.

On the contrary, it would have been advisable to allow the agriculturist debtor to be entitled to repay sums superior to those provided for in the instalments, whenever he is able to do so. This, in order to have the right to pay, on occasions, as a counterbalance, sums inferior to the ones stipulated, or even to postpone the payment of a whole instalment, whenever unforeseen circumstances—which so frequently occur in agriculture—create difficulties for him with regard to the regular payment of the instalments. But even if similar conditions might not arise in the future, the possibility aforementioned for the debtor agriculturist to effect larger instalments, is advisable, also for the purpose of freeing as soon as possible the farming property from the debts burdening it.

(8) *Forcible Executions by Court's decision.*—Conceptions of flexibility and leniency should inspire the whole of the credit policy affecting real estate agricultural loans, and,

[1] *Vide;* The Real Estate Capital, p. 27.

consequently, that relating to proceedings, and especially to executions by order of the court against the delayed payment of instalments already matured. Legal proceedings should not take place except in instances of proved bad faith on the part of a debtor. The creditor's risk of losing at a subsequent juncture his money following delayed payments on the debtor's part due to possible bad administration by the agriculturist, or through depreciation of agricultural products and of real property, cannot serve as a reason for legal proceedings against a debtor for his inability to pay a given instalment. What is necessary in such an occurrence is simply to put him under tutelage. As a matter of fact, irrespectively of the public utility character borne by Agricultural Credit which must not be lost sight of, the creditor would not gain much through legal proceedings and the agriculturist's property being sold by auction, especially in the second instance, namely, of adverse conditions leading to a depreciation in value of farming properties. Sales by auction galore would result in absolute denuding from value of agricultural property and the handing over to the credit institution of extensive holdings, the disposal of which by sale would, for a long time, prove very difficult, and cause losses and trouble without being of any practical value. The fatherly tutelage of the agriculturist, on the contrary, would result, in most instances, not only in his salvation, but also the serving of the best interests of the credit institution.

(c) *Time Limits in the Real Estate Agricultural Credit.*

It is clear from the foregoing that, in connection with Real Estate Agricultural Credit, only long-term due dates are acceptable. But, even in practice, things are not different. At any rate, the length of time-limits is measured, or at least ought to be measured, in conformity with the nature and the extent of the placing of real estate capital. These cannot be less than ten years' time, usually fluctuating *circa* a quarter of a century, without excluding longer terms whenever and wherever the actual facts impose these.

(d) *Guarantees in the Real Estate Agricultural Credi*

1. *The usual form of guarantees against which Real Estate Agricultural Credit is transacted.*

The remaining of the land in the possession and under the administration of the borrower, and the long-term method of land credit, are facts making usually for the acceptance as principal guarantee of no other than the land encumbrance and the Mortgage. Nevertheless, the more usual form, not to say the sole form, under which Real Estate Agricultural Credit is presented, is that of mortgage. This latter kind of guarantee, independently of the fact that it usually almost completely guarantees the creditor, presents also the quality that it allows for some intervention, at any proper moment, in what pertains to the agricultural enterprise, a matter which may have important consequences. These consequences are, usually, irksome in cases when the creditor is a private person, or generally a profit-seeking enterprise, but may become, on the contrary, beneficial whenever the Real Estate Agricultural Credit is carried by a credit institution of public utility character.[1]

2. *The Auxiliary Guarantees.*

(*a*) *Insurances.*—In many instances it is advisable to proceed to the contracting of a mortgage insurance,[2] and in some others use is being made of a combination of mortgage with a life insurance of the debtor.[3]

The question might arise: What is the effect of the additional burden for the agriculturist accompanying these supplementary guarantees? Their necessity is concealed principally in the very nature of the Real Estate Credit. As a matter of fact, the mortgage, which is considered a sufficient guarantee in relation to the Ameliorations Agricultural Credit,[4] does not offer the same sufficiency in Real Estate Agricultural Credit. This is due to the fact that,

[1] Cf. The Mortgage Credit in Agriculture, pp. 92 sqq., and: The Mortgage, pp. 64 sqq.

[2] *Vide:* The Mortgage Insurances, in: The Guarantees in Agriculture, p. 72.

[3] Cf. The Combination of the Mortgage with a Life Insurance, p. 72.

[4] Cf. below, p. 138.

whilst in the Ameliorations Credit there often is, as with the Exploitation Credit but on a smaller scale, some kind of reproduction of capital in annual income, the lack of a similar reproduction as regards Real Estate Agricultural Credit is practically absolute. Also the margin between the amount of the loan and the value of the mortgaged property is not always such as to represent a full guarantee against any eventual future decrease in the value of the property. Here, therefore, a few more reservations on the creditor's part are justifiable.

(*b*) *Mutual Liability.*—Mutual Liability also is anything but excluded. Nevertheless, it usually appears as an auxiliary additional guarantee, presenting itself under the form of a co-operation of owner agriculturists tending to increase the guaranteeing of the creditor through the medium of their mutual liability and, especially, of their landed property. A splendid example of mutual liability, and, to a certain extent, of self-help, is represented by the Land Credit Co-operatives of the "Landschaften" type.[1]

(e) *Limits of the Percentage of Land Indebtedness.*

Is there a fixed limit as regards the percentage of a land loan in comparison with the value of the farming property?

1. *On what Value of the Farming Property should the percentage be calculated?* We must first define what value of the property we mean here: its market value, or the value to be found through the capitalisation of the income derived from it. It is evident that only the second can be taken as basis, and under the condition that the income to be thus capitalised should represent the average income during a sufficiently long period of time, and that all other factors that may contribute to the objectivity of the valuation will be taken into account.

2. *Theoretical Margin of the Percentage of Land Indebtedness.*—Theoretically, in the sum of possible and wished-for land indebtedness are combined, on the one part, the benefits anticipated from the loan under given conditions, and, on the other, the value of the farming property.

[1] *Vide*: pp. 97 sqq.

In conformity, at least theoretically, there may be an indebtedness equalling the value of the property, provided the benefits to result from the loan, and, consequently, also the income to be derived, correspond to each other. But in practice this almost never occurs.

3. *The Limit of Indebtedness in Practice.*—According to Buchenberger, the highest margin of indebtedness is: 30 per cent. of the value of the "imposable" capital [1] as far as small peasant property is concerned, whilst it may reach 70 per cent. for medium and large-sized peasant property.[2]

Konrad admits land indebtedness up to two-thirds, and even to three-quarters, of the farming property, the value of buildings, however, not being included.[3]

Von der Goltz, on the other hand, considers that in the case of 4 per cent. irrevocable mortgage loans, and of average capability self-cultivators leading an average agricultural family life, the land indebtedness should not, as a rule, exceed two-thirds of the value of the farming property. In the case of revocable loans, he reduces this margin to one-third only.[3]

But it is evident that all the above are subject to more or less sensible modifications, in conformity with the level of order and economy prevailing in the agricultural enterprise and the brightness of its financial situation. The existence or lack of other personal debts is also of great importance.

Anyhow, we shall not be far from actuality in saying that, in practice, the highest level of land loans fluctuates between half and two-thirds of the value of the rural property serving for the guarantee of such loans.

4. *Relation between the Limit of Land Indebtedness and the Rate of Interest charged.*—From what has already been shown above, it results, physiologically, that the margin of land indebtedness does not remain unchangeable.[4] But what we wish to emphasise additionally is the influence upon this margin of the rate of interest on the loan. Every

[1] The "Imposable Capital" equals, according to Buchenberger, twenty-five times as much the income.
[2] Cf. Buchenberger, *Agrarpolitik*, II, p. 70.
[3] Cited by Philippovich, *op. cit.*, p. 284.
[4] *Vide:* The Theoretical Boundaries of the Percentage of Land Indebtedness, p. 123.

increase in this rate of interest produces a corresponding decrease of the limit of land indebtedness, whilst, on the contrary, any reduction of the interest rate brings about the extension of the limits of indebtedness. This relation is an absolutely mathematical one.

(f) *The Insufficiency of Real Estate Agricultural Credit.*

1. *The main Inner Factors of the Insufficiency of Real Estate Credit* are: the small yield from real estate capital placing (from which, as already stated, no augmentation of the general income of the farming property is to be expected, as occurs for instance in the placing of ameliorations capital), the long terms of this kind of credit and the irrevocability of the loans.

2. *The Exterior Factors of the Insufficiency of Real Estate Credit.*—But the existing exterior factors, adversely influencing the sufficiency of Real Estate Agricultural Credit, are also numerous and important. And first among these, the positive legislation and the status of legalising of ownership, land guarantees, forcible legal executions and liquidations, all have a great influence with regard to the attraction of capital inclined, in principle, to be placed in land. Also the eventual uncertainty as to the owning and exploiting of the soil and the total lack of any guarantee in respect of economic benefits to be expected from any agricultural enterprise, and the doubts arising as to capacity for the payment of debt-redemption instalments, all create so many hesitations on the part of capital. Lastly, political, social and monetary anomalies and instability during certain periods make it impossible not only to attract capital but also to keep it, where found, in the rural districts even for short terms. It is evident that these almost absolutely exclude any real estate capital placing at all.

3. *Measures for overcoming the Insufficiency of Land Agricultural Credit.*—Capital, as a rule, avoids placings that exceed a period of twenty years' time. And the repayment of loans on the debt-sinking by instalments system (*amortissement*) often does not suit the capitalist among others, owing to the trouble involved in following up the drawings (*tirages*).

But this system is, as a rule, unavoidable, and at all times beneficial for the borrower. It is, therefore, necessary to try to arrange to reduce the disadvantage relating to the drawings by circulating ample copies of lists of drawings. As regards the bonds, in order to attract eventual buyers, the issue of these at a price below par (their nominal value) is recommended. In many instances the institution undertakes the obligation to call them in (instead of drawings), at least whenever their market value may be reduced to below par.

Nevertheless, there can be no serious question as to any important influence brought to bear by the inner factors of insufficiency of the Real Estate Agricultural Credit. With regard to the exterior factors, things are different. The desire of an agricultural country to attain its full economic vigour sufficiently suppresses any tendency to create disturbances of any kind, and leads it to put its general financial and monetary situation into the best possible order. Possible shortcomings and whatever may be faulty in the positive legislation of every country—in whatever direction this is found—may be set right with just a dose of goodwill and, usually, without any great difficulties.

(g) *The Sources of Real Estate Agricultural Credit: the Bonds.*

1. Bonds, and other similar titles of every description, represent practically the only source for Real Estate Agricultural Credit.[1]

The Credit Institutions proceed to the issue of the bonds in some instances for groups of landed property owners, and in other cases on their own account.[2] Whichever the case may be, land titles of all kinds are based either on real estate agricultural property itself, or on land guarantees, and mostly on mortgages.

2. *The Guarantee of Real Estate Bonds.*—The security and stability of real estate bonds and of other similar titles, appears, under the circumstances, to be *prima facie* an absolute one. In practice, however, as regards Agricul-

[1] *Vide:* p. 96. [2] *Vide* also below: p. 144.

tural Credit, their guarantee and the stability of their value are only comparative. As a matter of fact, under equal and similar conditions, the fluctuations of land products produce corresponding fluctuations in the prices of the bonds, and the limits of such fluctuations cannot be defined beforehand.[1] Especially, when speculation in land intervenes and, on the loans being granted, their market value, and not the value calculated upon anticipated rent, is taken into account, and consequently the credit is disproportionate in size in comparison with the actual real guarantee offered, then the guarantee of bonds issued is considerably decreased, and, in some instances, it becomes practically a shadow.

(h) *What Principles should be adhered to in the granting of Real Estate Loans?*

There is one general principle in the transacting of Agricultural Credit, namely, that no loan should be granted if there are not, at least, indications that it will be utilised, directly or indirectly, in a proper way in the work of production, and that a good use is to be made of it from the economic standpoint. The above *desiderata* usually govern the advisability of the placing of the loan, and the latter is judged, as a rule, from the expected results, and defined by the percentage of income to be derived from the sum placed.[2] In connection, however, with Real Estate Agricultural Credit, judgment cannot be, and it is not right that it should be, on the strength of the above principle only. The value of a piece of land is only determined to a certain extent by its income, and, in many instances, speculation represents the main factor for determining at least its market value. It would, therefore, be necessary in this respect to calculate when weighing the advisability of granting a real estate loan, the actual value of the land on the basis of its income. In this way the security of credit would be guaranteed from any unforeseen eventualities.

On the other hand, however, the acquiring of a piece of land in appearance unprofitable in itself proves in many

[1] Cf. Philippovich, *op. cit.*, p. 274. [2] *Vide* lower: p. 214.

instances very useful for the agricultural enterprise, because it facilitates the exploitation of already existing land. The problem is, therefore, a difficult one to solve, and it demands, apart from general knowledge, great experience and wisdom, also a minute scrutiny of all instances occurring, in order to go fully into each one of them.

Anyhow, independently of the point of advisability of a land loan as regards its objective productivity, the capacity of the agricultural enterprise to respond fully to the obligations to be undertaken should be carefully examined, taking, at the same time, also into account the needs of the agriculturist for his own livelihood. And—with the exception of eventual instances, due to special reasons or to social policy—the loan should be granted only when, after a scrutiny of all factors, it appears that the service of the loan would be more or less guaranteed within the prescribed time limit and regardless of adverse eventualities in the yield and in the market value of the products.

(i) *Present-day Organisation of Real Estate Agricultural Credit.*[1]

1. *Forms under which it appears.*—The present-day

[1] Titus Livius, the historian, gives us the first intimation as to an actual form of Real Property Credit existing during Roman times—in his description of the measure decreed in 347 B.C., during the tenure of the town mayor's office by Gaius Duilius (Cf. Livy, VII, 21). It is a case of medium-term State loan granted through a State bank against the guarantee of the real property of the borrower, provision being made for the respective valuation of this.*. We pass by the measures decreed during Julius Cæsar's time, as these only consolidated, in a spirit of equity, relations already existing (Cf. Julius Cæsar, *De Bello Civili*, II, III, 1). With time, however, Real Property Credit was shaped in better form and, under the reign of the Emperor Tiberius, its basic principles considerably approach those of present-day Real Property Credit. Roman history mentions (Cf. Cornelius Tacitus, *Ann.*, VI, 16 and 17; Suetonius, *Julius Cæsar*, 42; Dio Cassius, LVIII, 21) that under the said emperor, the State granted to owners (both urban and rural) interest free for a duration of three years, a colossal loan, through the banks, in order to overcome the activities, amounting to orgies, of the prevailing usury. These loans were guaranteed by real property of double their value.

Since then Real Property Credit has been regularly developing in the direction of its modern form.

At the beginning of the eighteenth century, we meet in Holland with mortgage institutions granting to the settlers in the colonies mortgage loans against the guarantee of their plantations, and in 1769, as already seen (Cf. p. 97), Frederick the Great of Prussia promulgated the decree concerning the Real Property Credit Co-operatives, "Landschaften."

* Originally at 5 per cent., and then at a considerably lower rate.

organisation of Real Estate Agricultural Credit presents itself under the form of credit institutions specialised in its transaction both as regards its long-term and its agricultural quality and making it their principal object; also under the form of non-specialised credit institutions, handling Real Estate Agricultural Credit not as such, but simply for the purpose of placing any excess of their disposable capital. Apart from the above, however, this category of Agricultural Credit is also transacted by non-credit institutions, and even by private persons, for the sake of placing capital. In these last instances there cannot be a question of organisation, although very often there are actual and systematic dealings in Real Estate Agricultural Credit. Generally speaking, the Institutions transacting the Real Estate Agricultural Credit are institutions of public law in some instances, in others of private law, and they are present under any conceivable form that credit institutions of every kind may show.

2. *Factors influenced by and influencing the formation of Real Estate Agricultural Credit.*—There have been, and are, various factors that have influenced and continue to influence the whole trend of Real Estate Agricultural Credit in the various countries, and the principal ones may be summarised in the following categories: (*a*) historical reasons; (*b*) factors connected with the prevailing social, administrative or political organisation; (*c*) factors due to the economic situation and the economic structure as a whole; (*d*) factors connected with the mentality and the educational level of a nation or a given country, and (*e*) the nature, the character of and the objects aimed at by Real Estate Agricultural Credit.

3. *Institutions transacting Real Estate Agricultural Credit.*

(*a*) *The Mortgage Institutions.*—The Mortgage Institutions are the principal establishments for Real Estate Agricultural Credit transactions. They sometimes transact Real Estate Agricultural Credit parallel with other credit branches demanding a long-term repayment, irrespective as to whether they are agricultural branches or not, and, in other

cases, they have as sole mission the transacting of Real Estate Agricultural Credit proper. Lastly, they may also grant the Consolidated Means Agricultural Exploitation Credit, or, often, Agricultural Credit of Current Exploitation, along with Real Estate Agricultural Credit.

Regardless of the differences in their nature, the basic lines of their technical organisation and methods applied to this category of credit differ but slightly, and are almost invariably based on the same fundamental principles,[1] whether they be state institutions, institutions of public or private law, or of a mixed nature, or may take the forms of a limited liability company (*Société Anonyme*), a simple shareholding company, an autonomous institution, or even of a co-operative.[2]

Only when we go more deeply into their distinctive lines do we meet with more or less important differences as regards some of the above-mentioned points, and especially so in institutions of the co-operative stamp.[3]

(*b*) *The Competition between Public Utility Institutions and ordinary Enterprises.*—But if we are unable definitely to pronounce ourselves in favour of the one or the other category of mortgage institutions (it being granted that they follow practically the same methods) as regards their methods to secure the requisite means and—to a certain degree—for distribution of credits, we can certainly do so at least theoretically where we consider the mission of the mortgage institution from the point of view of rural policy. Actually, Institutions of a public utility character appear, at first sight, to be those most adapted and most corresponding to the nature of Real Estate Agricultural Credit, its special characteristics and the specific conditions of its transaction.

In reality it is often otherwise. That is to say, in practice it often occurs that private (profit-making) mortgage institutions successfully compete with those bearing a public utility character. This may be attributed possibly to a better and more economical organisation and administration by the commercial (profit-making) banking establishments and the

[1] Cf. The Organisation of Mortgage Credit, p. 95.
[2] *Vide:* pp. 97 and 180 sqq. [3] *Vide:* pp. 180 sqq.

greater pushfulness emanating from their nature, their flexibility and the width of their conceptions.[1] It may equally be due to their rarely limiting themselves exclusively to Agricultural Mortgage Credit business and, therefore, to their being able to endure a certain throwing out of ballast in its transaction, and to cover this throwing out of ballast with their other activities and branches.[2]

In most instances, however, especially in practice, the serving of rural districts with Real Estate Agricultural Credit undoubtedly is far better done by the public utility institutions, and especially those operating under the form of a co-operative. And this because such institutions, as a rule, conform fully to the requirements of rural surroundings so far as the percentage of the loan, the time limits, the method of sinking of the debt, the irrevocability of the loans and the rates of interest, are concerned, as well as the methods of following up and getting the loans repaid.[3]

(c) *Institutions best adapted for transacting the Real Estate*

[1] *Vide*: p. 182.

[2] To this latter item, both Philippovich (cf. Philippovich, *op. cit.*, p. 296), as well as students of the question before him and many others coming after him, attribute a capital importance. Personally, we do not consider it justified; on the contrary, we are led to believe that, in most instances, the eventual domination of banks, under the shape of enterprises, in the transacting of Agricultural Mortgage Credit, should be mainly attributed, on the one hand, to their more perfect and economic organisation and administration, their general flexibility, together with the setting aside of all irksome and objectless formalities for the borrower, and, on the other hand, to the fact that the institutions of public utility in the district are sometimes overburdened by heavy general expenses and are slow and pedantic in their administration.

The instance of a combination of such long-term Real Estate Credit placings with the transaction of other more profitable banking operations is not, certainly, excluded, but it is mainly applied in respect of the credits placing and not in the systematic carrying out of Real Estate Agricultural Credit transactions. It would not be advisable to attribute this, especially in a general and exclusive way, to the existence of disposable excess capital in these Institutions and the attempt to secure an average profit out of the sum-total of their operations of every kind.

The correctness of our view-point is proved also by the fact that, wherever there are in operation well-organised mortgage institutions of a public utility character, endowed with an enlightened administration, and possessed of ample means, the privately conducted similar institutions either withdraw from the field or lead a half-existence, unable to carry on. Be this so or not, the question requires special and minute statistical study by countries, at a given moment and under well-arranged conditions, before any objectively scientific opinion thereon can be formulated.

[3] *Vide*: pp. 180 sqq.

Agricultural Credit.—There are students of the question who consider that the whole of Real Property Credit, irrespective of whether it is urban or rural credit, ought to be transacted, without distinction, by the purely land banks (*Banques Foncières ou Immobiliaires*). Others opine that only organisations specialised in the transacting of Agricultural Credit may beneficially carry this branch of credit as well, whenever it is specially a question of serving rural districts. That is to say, some attribute much more importance to specialisation in things pertaining to Real Estate Credit, and others to things agricultural and the fullest possible acquaintance with the rural surroundings. But it is self-evident that a rational transacting of Real Estate Agricultural Credit demands specialisation in both directions, and the point as to which of the two should receive the greater attention cannot be decided upon in a general manner. In each special instance, one must bear in mind not only the prevailing agricultural economics and technics, but also the social and other conditions of every description connected with the case.[1]

Where there is big agricultural property and cultivation on a large scale, Real Property Agricultural Credit can be very well transacted by the ordinary Real Estate Credit organisations, provided they can produce also the requisite agricultural technical service.

On the contrary, in instances where the predominating form is small agricultural property and farming in a small way, the transacting of Real Estate Agricultural Credit should be carried out by institutions specialised in this, and if such institutions are lacking, as far as means permit, by agricultural credit organisations offering personal Agricultural Credit as well as against pledges. In such a case, the Ameliorations Credit may also be entrusted to the latter. That is to say, in such an occurrence the concentration of Agricultural Credit under all its forms in the hands of one and the same Agricultural Credit Organisation is desirable. Thus we have the transacting of Agricultural Credit, in its widest sense, by one and the same institution.[2]

[1] *Vide* below: p. 189. [2] *Vide* also: p. 198.

(*d*) *The Non-Mortgage Institutions in their transacting of Real Estate Agricultural Credit.*—Apart from the mortgage institutions, Real Estate Agricultural Credit is transacted in rural districts, more or less systematically, but merely for the sake of placing capital on a long-term period, by the following: non-mortgage banks, savings banks, insurance companies and private persons.

Although here we have the transacting of the Real Estate Agricultural Credit as a hobby, so to speak, nevertheless, the contribution, of savings banks especially, in the whole work of Real Estate Agricultural Credit can be considered as anything but unimportant. Whether the influx to rural districts of this kind of capital has its sources in the search for a guaranteed placing, or whether it results from a legal, or a treaty, obligation, it must conform within fixed limits with the requirements of the rural district and must compete with mortgage institutions. This competition presents, certainly, theoretic difficulties for the institutions mentioned above as well as for private persons. But in practice the insufficiency of the mortgage institutions and also of the other credit institutions, both from the point of view of their number and their credit, their being far away from the rural district and the consequent lack of contact with the rural population, the formalities and the publicity demanded by them, also the lack in many instances of an elementary flexibility—all these leave, especially for private money-lenders, an extensive field for action, and this certainly does not act in favour of the agriculturist.

As a rule, the credits of non-mortgage banks, of savings banks, insurance institutions and private persons have not the requisite elements either in respect of their terms of granting or the method of their repayment. To specify, the time limits are usually shorter than those of the mortgage institutions and the irrevocability of credits is rarely to be found here, owing to the fact that credit and insurance institutions are obliged to make provision for any eventual exceptional, unforeseen needs of their own, whilst private persons are desirous of the possibility, if practicable, of calling in their money at any given moment, and they are not satisfied

with the debt-sinking by instalments system, which gives them the impression that they are losing their capital.

In spite of the above, for the reasons stated before, the savings banks and the insurance companies usually dispose of a considerable part of their spare capital in Real Estate Credit placing, thus reinforcing the organised Real Estate Agricultural Credit proper, and the private Real Estate Credit is the one most spread over rural districts in most countries. Not seldom it takes the form of usury and results in most instances in evil instead of good.[1]

(*e*) *The Necessity for Organising Real Estate Agricultural Credit.*—From the foregoing it is clear, how necessary is the special organisation and the strengthening of Real Estate Agricultural Credit, not only because of its own importance, but principally in view of its requirements, which are anything but encouraging to the influx of capital into rural districts.

D. Ameliorations Credit

(1) *The importance of Improvements in Agriculture.*

There is no need to enlarge upon the importance of improvements in agriculture, not only in so far as agricultural economy but also generally national and universal social economy are concerned. It is acknowledged that the carrying out of well-studied agricultural and land improvements brings about the increase and improvement of the means of production, and, consequently, the increase within the desired bounds, the rationalisation, and, in most cases, the improvement of production itself, leading to prosperity and comfort not only for the rural but also for other productive classes of the population, thus creating a higher standard of living for the community as a whole.

Notwithstanding their acknowledged usefulness, there are, even nowadays, but few improvements actually carried out as compared with those remaining unapplied even in the most scientifically advanced countries of the two hemispheres.

One of the main reasons for this state of things, at least

[1] Cf. Usury in Rural Districts, pp. 172 sqq.

in civilised countries, is considered to be the general shortage of capital invested in agriculture. And this noticeable shortage is greatly disproportionate to that prevailing in respect of other branches of Agricultural Credit. This insufficiency in the very branch, which—in view of its importance—demands especial attention, leads us to the study of the special factors influencing the evolution of this branch of Agricultural Credit.

(2) *Insufficiency of Ameliorations Credit.*[1]

Several factors influence the Ameliorations Credit. They might be divided into two main categories, determining the two basic classes of causes leading to its slack expansion: (*a*) the inner factors, and (*b*) the exterior factors. Between these latter, however, we must distinguish those emanating from ordinary regular conditions and those due to exceptional ones, provided always that these terms are taken not in their absolute but in their conditional meaning. The regular factors comprise those derived from the ordinary peaceful evolution of all things making up social and economic life; the exceptional factors are created by war-time or revolutionary disturbance and, generally, the non-physiological evolution of social and economic life.

(a) *Interior Factors.*—The most important interior factors are:—

1. The comparatively small income derived from capital invested not only in land improvements, but—*mutatis mutandis*—even in the most lucrative purely agricultural improvements.

2. The insufficiency, in many cases, of the guarantees forthcoming, even assuming the granting of a mortgage on the whole of the property, including improvements, as a guarantee for the security of the loan. This is often because the sum of the loan on the date of its being contracted far

[1] The "Commission Technique Scientifique pour le Crédit et les Assurances Agricoles" of the International Agricultural Institute has dealt (November 1927) at length with this very question, the causes leading to it, also with the Ameliorations Credit in general. The findings of the said Commission deserve much attention. (Cf. Inst. Intern. d'Agr., *Documentation*, etc., Rome, 1930, pp. 190 sqq.)

exceeds *prima facie* the value of the property—the increase of value of the latter through improvements to be carried out being, at the time, uncertain and imponderable.

3. Lastly, we have here all the shortcomings generally presented to the eyes of the capitalist by long-term irrevocable credits bearing an interest fixed in advance.[1]

(b) *Exterior Factors.*—Among the exterior factors, emanating from a regular state of social and economic life, we distinguish :—

1. The insecurity of the use and enjoyment of rights on the land.

2. The established order of things as regards property, viz., where there are small holdings and no facility for organising co-operative associations, the carrying out of land improvements is practically excluded, and even as regards agricultural improvements there are many difficulties.

3. The prevailing system of exploitation.

In the absence of a system of self-cultivation of the land, wherever for purposes of exploitation it is rented to a tenant, there is a marked scarcity of improvements due to reduced personal interest in the amelioration of the property, both on the part of the landlord and of the tenant, since the benefit to be derived is a future one and uncertain.

4. The realisation of agrarian reform.

5. The lack, insufficiency, or uncertainty of *ad hoc* legislation.

6. The possibly lengthy and costly procedure of registering a mortgage, or the fact of pre-existing mortgage obligations, which hinder the utilisation to advantage of this guarantee.

7. The strong conservatism of the peasantry, and their attachment to the *statu quo*, not to mention backwardness and lack of education.

Finally, the main exterior factors, emanating from or following exceptional and anomalous political, social and economic conditions, are :—

[1] Cf. *supra*: pp. 19, 133, etc.

1. Insecurity and uncertainty with regard to the use and enjoyment of benefits to be derived from the carrying out of improvements, and

2. Insecurity and instability on the money market, annihilating the locally existing reserves and diverting the capital of the country to other points while, under such conditions, foreign capital surely cannot become attracted.

(3) *Due Dates and Repayment of Ameliorations Credit Loans.*

The terms of repayment of Ameliorations Loans fluctuate between ten and twenty years.

They are fixed in each instance in conformity with the nature of the improvement to be carried out and its anticipated economic results. In any case, the repayment of the loan is, or ought to be, effected by annual debt-sinking instalments, the first of which should not fall due earlier than in two years' time from the date of the contracting of a loan. There can be no revocation of the loan on the part of the creditor.

(4) *Guarantees in the Ameliorations Credit.*

The foundation of the Ameliorations Credit lies in the "confidence" of the capitalist in the actual value and safety of the real guarantees generally offered. This is natural in view of its terms for repayment as well as its nature.

The real guarantees mentioned are usually an ordinary mortgage registered on the land, or less often a "Privileged Ameliorations Mortgage" on the surplus value to be attained by the estate owing to the improvements effected.

These guarantees are not always sufficient in themselves.

In certain cases, additional guarantees are offered in the shape of the estates' or landowners' "mutual liability" for the obligations of each severally and as a whole, insurance, often even a State guarantee.

The problem, therefore, of the *available* guarantees is not altogether simple. Owing to the special requirements and conditions governing the Ameliorations Credit, we may say that for this branch of credit, much more than for any other

branch, the solution of the problem of guarantees is of the utmost importance, as it affects the very substance of this credit.

(a) *Ordinary Mortgage.*—The best and most natural guarantee is presented in the registration of an ordinary first mortgage on the estate under improvement. This, on the one hand owing to special characteristics and advantages presented by a mortgage, and on the other, because in most cases the amount of the loan is more than covered by the intrinsic value of the estate itself, even before the projected improvements have materialised.[1] Nevertheless, although this occurs very seldom, it may happen that the amount required for the carrying out of ameliorations is higher than the market value of the estate at the time of the contracting of the loan, and at the same time, the person desiring to obtain a loan cannot afford to offer an additional mortgage guarantee on a second estate. It may also happen that the land is already burdened by a pre-existing mortgage, or mortgages. Lastly, it may be that the concession of a mortgage guarantee is unprofitable to the borrower. Hence the necessity for seeking other guarantees.

(b) *The Privileged Ameliorations Mortgage, or Agricultural Mortgage.*—1. The person granting a loan destined for carrying out improvements ought to be (at least theoretically) fully covered by the surplus value acquired by the land as a result of these improvements. But this is subject to two points: (*a*) that the increased value of the land due to the improvements should correspond to the amount spent on them; (*b*) that it is possible to separate the surplus value from the original value of the land.

This is attained in most instances through the medium of the Privileged Ameliorations Mortgage, or Agricultural Mortgage, which concerns solely improvements, and which, owing to its privileged character, takes first rank in the mortgages on a real estate. It is written off only following the full repayment of the Ameliorations Loan.[2]

2. In practice, however, several difficulties arise in this

[1] Cf. The Mortgage, p. 64; also: H. Dietler, *Rapport sur le Crédit d'Améliorations*, in: Inst. Intern. d'Agr., *Documentation*, etc., p. 208.
[2] Cf. The Ameliorations Mortgage, p. 68.

connection. First, it is not at all easy to forecast the outcome of improvements—the possibility of a failure being not excluded even to the point of total disappearance of the amount loaned, without the guarantees taken, so to speak as granted, even remotely materialising.

Then, it is not always easy to discriminate as to the surplus value accruing from the improvements.

Lastly, the created privilege of preference of the Ameliorations Mortgage over and against other pre-existing mortgages leads to uncertainty on the money market and reduces the confidence of capitalists in the real value of mortgage guarantees in general.[1]

3. *Limiting the Difficulties.*—It is certainly impossible to have these difficulties altogether wiped out. But they may be limited to a point making a practical use of the privileged mortgage.

For this is required :

(*a*) *The Proper Use of the Loan and its Evaluation and Control.*—The good use of the loan represents the basic presupposition for guaranteeing the creditor. The credit institution should in every instance satisfy itself that the borrower will make the best endeavour to attain the best possible results. To this end it is necessary that, before granting an Ameliorations Loan, the respective schemes and study lodged by the interested party should be properly examined from both the technical and economic sides and, should the loan be granted, constant supervision of the way the work is carried out must be made.

As regards, however, both this preliminary control and the supervision of the works, expert opinion is divided. Some take it that both these offices are within the province of the institution granting the loan. Others believe it to be more advisable that the credit institution should keep altogether aloof from any interference, and that the State, or special institutions, should undertake the work of the preliminary and actual control of the works being carried out, and that their advice thereon should be binding for the credit institution. The former contend that only the institution directly

[1] *Vide* : p. 66

interested, or responsible for managing the enterprise, is in a position to effect a proper control at a proper time, and without undue delay. The latter argue that neither the preliminary control nor the supervision can bear an objective character once they are effected by the interested institutions, and that the actual control of the works on the part of the credit institution would become a source of endless trouble to the progress-loving agriculturist or association.

There is a midway solution, in the shape of a collaboration of the State and the credit institutions, when the preliminary evaluation and control is entrusted to the State, and the actual control of the works to the credit institutions.

Personally, we are unreservedly in favour of the absolute jurisdiction of credit institutions with regard to both the technical and economic preliminary and actual control of the works to be carried out. The credit institution is best adapted for it and it must undertake full responsibility for the management of the branch of credit it transacts. And this work would be carried through by the institution far away from any political, public service, or other kind of interference, which is of the utmost importance especially in instances where, upon the confidence of the money market and the Stock Exchange, the securing of the necessary financial means for the accomplishment of the mission of the credit institution will depend. Apart from the above considerations, the actual control of works by the same credit institution is of the utmost necessity for repayment by instalments, which we consider useful for most Ameliorations Loans. As far as State interference is concerned, we are led to admit this in the shape of a control as to how the credit institutions are fulfilling their mission, so as to prevent them from forgetting their task of public utility out of purely banking considerations, and to facilitate this task by according them State support, moral, material, and legal.

(*b*) *Public Confidence.*—We do not see any harm in having the Privileged Ameliorations Mortgage enacted and decreed, provided there is a confidence of the public created in regard to the fact that the privileged mortgage (although, apparently, setting aside and ranking first among other, even pre-existing

mortgages) in practice not only does not reduce, or unsettle the value of these real guarantees, but, on the contrary—thanks to the improvements attained—in most cases, will rather reinforce the real value of pre-existing mortgages on the estate.

(c) *Valuation of Ameliorations.*—To this effect and more generally, to the practicability of the privileged mortgage, it becomes necessary to make a valuation of the estate before the improvements are effected. Also a calculation of the surplus value which the estate will attain after the works are carried out. Finally, a verification of the valuation already made, through a revaluation of the estate, including the actual additional value due to the works carried out, after they are brought to an end.

(d) *The Amount of the Ameliorations Mortgage and the Controlling of its Limit.*—The amount of the Privileged Special Ameliorations Mortgage must not exceed the sum of the surplus value which would result from the ameliorations. In such a case all fears of uncertainty and of reduction of the value of the guarantee offered by the ordinary mortgage are excluded.[1]

The question does not present great difficulties when there is only one credit institution in the whole district having in its hands the first valuation and the actual control of ameliorations.[2] Where there are several credit institutions operating, it would prove beneficial—specifically for the purpose of creating confidence and attracting capital, but also for the sake of the farmer or landowner desirous of contracting a loan—if the valuation and the pre-control of works to be carried out were effected by a specially created service of the central credit institution, or, in the absence of the latter, by a special body of experts organised *ad hoc* and recognised by the State. In this way a substantial economy in transacting the Ameliorations Credit would be made. As an *ultima ratio*, and subject to the requisite limitations, we do not exclude valuations in the instance before-mentioned made by the State itself.

[1] Cf. Luzzatti, *Forme e Garanzie del Credito Agrario*, in: Rivista di Diritto Agrario, 1927, No. 1, p. 3.

[2] Cf. The Proper Use of the Loan and its Evaluation, p. 139.

Whatever the case may be, in all three instances, the farmer or landowner contracting an ameliorations loan on a privileged mortgage basis will be supplied before setting forth the loan contract with: (*a*) a special temporary note of pre-valuation of the surplus value arising out of the improvements to be effected (this note will be deposited with the credit institution together with his application for the granting of the loan); (*b*) a definite note after the carrying out of the ameliorations works, and the valuation of the real surplus value attained by the estate after the ameliorations.

(*e*) *The Time Limit.*—In order not to affect the enacting of the ordinary mortgage credit, the privilege of the agricultural (privileged) mortgage should be limited as regards time.[1]

(c) *Mutual Liability in the Ameliorations Credit.*

As a reinforcement to the above-mentioned real guarantees in the Ameliorations Credit, the Mutual Liability Guarantee is sometimes called in. As an instance, all the members of a farmers' association, or eventually the agricultural estates themselves, mutually guarantee all and severally, and, on occasion, without any limitation, the timely and punctual execution by every one of the members of the obligations undertaken by each one severally and by them all.

In this way, public confidence is increased with regard to the titles issued by institutions of Agricultural Credit undertaking Ameliorations Credit operations.[2]

But the mutual liability is not confined to parties contracting loans, but extends to wider fields. So we have the mutual liability of the various institutions, concentrating in their central institution, with regard to the guaranteeing of loans granted to each one of them.[3]

Under the conditions stated the guarantee may be con-

[1] Cf. Conseil International Scientifique Agricole, *Résolutions adoptées par la Commission pour le Crédit et les Assurances Agricoles*, in: Inst. Intern. d'Agr., *Documentation*, etc., p. 226.

[2] Similar instances are not rare, but the most typical are those of the "Landschaften" in Germany (Cf. The Real Estate Credit Co-operatives, p. 97) and those of the Federal Land Banks in the U.S.A. (cf. Federal Farm Loan Act, 1916).

[3] This is the case with the German "Landschaften." And the same system applies to the Federal Land Banks in the U.S.A., in their mutual relations.

sidered as considerably increased. In practice, titles based, apart from real guarantees, on mutual liability, meet with greater demand, other conditions being equal.

(d) *Substantial Guarantees emanating from the Inner Organisation of the Ameliorations Credit.*

The inner organisation, the system applied and the principles prevailing in the general management of the Ameliorations Credit institution—as well as in the other Agricultural Credit branches—contribute to a great degree to its security and the attraction of capital.

A *leading rôle* is also played by: (*a*) the making of a low percentage of loans in comparison with the value of the real estates serving as security, (*b*) the strict and careful evaluation methods, (*c*) the connection between the titles issued with the mortgages registered and the capital of every other description belonging to the institution, and also (*d*) the systematic follow-up and the punctual repayment of loans granted.

But what is of the utmost importance for the capitalist is the possibility of extending and transferring the guarantees to the shareholder.

The holders of shares will be under the influence of a real feeling of safety solely when the shares of the institution of Agricultural Credit entitle them to immediate payment, out of the mortgages filed in favour of the institution, of the interest accruing, as well as the repayment and the reduction of the loans.

(e) *The State Guarantee.*

The guarantee of the State, as already shown, represents the highest security for the capitalist, and a radical solution of the problem of guarantees in the Ameliorations Credit. It eliminates the greater part of the difficulties experienced by this branch of credit, by substantially reducing the weight of the other guarantees.

R. R. Enfield pays such a special attention to this intervention of the State as to take it as a criterion of the system prevailing. He distinguishes two systems of Ameliorations Credit differing from each other: the Agri-

cultural Credit Proper, relying on its own means and guarantees; and the system presupposing the existence of a State guarantee, which, as he reasonably points out, effects a radical change in the economic character of the Agricultural Credit system.[1]

Now, how far the State guarantee in the matter is always to be deemed advisable or not we cannot say in a general and absolute manner, because the question depends upon special conditions of all kinds in a given country at a given time and in each instance, and mainly from the breadth and importance of considerations of public utility expected as the outcome of the improvements to be carried out.

Nevertheless, we may say that, granted the importance of improvements for agriculture[2] and also the difficulties agriculture must face owing to the keen competition in regard to the necessary economic means, the State guarantee is in most cases imposed.[3]

On the other hand, there are many instances of the State transacting Ameliorations Credit operations through the channel of its own institutions and disposing for the purpose of substantial State funds.[4]

(5) *The Securing of Capital for the Ameliorations Credit.*

The issue of bonds, and other similar titles, by the respective credit institutions, is the usual and best means for finding the capital needed for carrying out Ameliorations Credit operations.

The contracting of the loan, however, is not always effected in the same way. In some instances the loan is contracted for its own account by the credit institution, which subsequently grants to the interested parties Ameliorations Credit and transfers the guarantees obtained in favour of the bondholders. In other cases, the credit institution acts only as an intermediary between the farmer landowner and the capitalist, with the additional mission of protecting the

[1] R. R. Enfield, *Rapport sur le Crédit d'Améliorations,* in: Inst. Intern. d'Agr., *Documentation,* etc., p. 216.
[2] Cf. p. 134.
[3] *Vide* also: pp. 21 sqq., and 202 sqq.
[4] Regarding the transacting of Agricultural Credit by State Institutions, *vide* below: pp. 180 sqq.

interests of the shareholders, exactly as is the case as regards the Real Estate Agricultural Credit.[1]

As far as the bonds are concerned, they are usually of a uniform type for all Ameliorations Loans, so that it may be an easy matter for the capitalist to follow up their redemption and all matters pertaining thereto as well as for many other technical reasons.

Sometimes, however, bonds of a special type are issued, especially in cases relating to a single work of improvement which is of exceptional importance.

Wherever Ameliorations Credit operations are carried out by the ordinary mortgage institutions, there are issued either one and the same type of bonds for both the ordinary mortgage credit transactions and for Ameliorations Credit operations, or the issues are divided into two categories, viz., the ones relating to Mortgage Credit and the others connected with Ameliorations Credit.

Independently of the issue of the bonds, the Ameliorations Credit secures the means necessary for carrying out the respective operations by resorting to State credits, grants, subsidies and endowments. The funds thus accumulated are rather important. Nevertheless, they are far behind those secured through the issue of bonds.

(6). *Subdivisions of the Ameliorations Credit.*

We have already mentioned[2] that the Ameliorations Credit is composed of the two forms of Agricultural Credit, namely, Agricultural Ameliorations Credit and Agricultural Credit for Land Ameliorations. But the limits between these two forms are not altogether distinct, for the simple reason that there is usually a certain want of clearness in distinguishing between agricultural and land ameliorations, and very often there is an absolute confusion between them.[3]

[1] *Vide*: p. 126.

[2] Forms of Ameliorations Credit in accordance with the nature and the object of the credit, p. 49.

[3] The English Law of 1864 does not make any distinction at all, and classifies Land Ameliorations among the Agricultural Ameliorations. French legislation also does not make any difference between the two. Italian Law, on the contrary, classifies among Land Ameliorations: the acquiring of land for the creation of small holdings or the carrying out of radical improvements, hydraulic and irrigation works, the construction and

This confusion and uncertainty is not without consequences, and there is a practical interest in reasonable delimitation between agricultural and land ameliorations.[1]

With reference to both the delimitation and classification of the various ameliorations, it is certainly necessary to take into consideration: (*a*) the scope and the ends aimed at, and (*b*) the nature of each improvement. As there are no distinct physical limits between these two, we must take them as granted *a priori*, considering also the point of advisability, and taking as our starting-point the classification of agricultural capital already made.[2]

We therefore accept it *a priori* that agricultural ameliorations proper are those of a purely agricultural nature, tending to the direct reinforcement of the factors of agricultural production, for the purpose of attaining an increase or amelioration of these in a comparatively short time, but for a duration of returns almost determined in advance and at any rate not a long one. On the contrary, land or real estate ameliorations are ameliorations bearing rather a permanent character, and pertaining more to land and buildings than to purely agricultural improvements. They aim rather at an indirect but radical and practically firm improvement of the conditions of production, and, as a rule, at a much longer duration of returns from the works carried out.

In conformity, we shall classify under Agricultural

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repair of buildings belonging to the agricultural enterprise, road-making and fencing (of every description) on an estate, the application of electricity, reafforestation, and the unification of land loans. Among agricultural ameliorations it classifies: changes in the cultures, installation of orchards and vineyards, and limited improvements of the soil and the buildings of the estate. (Cf. A. Fontana, *Rapport sur le Crédit d'Améliorations*, in: Inst. Intern. d'Agr., *Documentation*, etc., pp. 221, 222; also the Italian Laws, sub No. 3265 of the 30th December, 1923, *re* Drainage and Marsh Land, No. 473 of the 17th April, 1925 *re* Land Improvements of public importance, and No. 3267 of the 30th December, 1923, and No. 23 of the 3rd January, 1926 on reafforestation. Decrees sub-No. 1154 of the 20th May, 1926, and No. 1907 of the 17th August, 1927, regarding Irrigation Works in Northern Italy, and also the Decrees concerning the new Tree Cultures.)

[1] It is to be regretted that the "Commission pour le Crédit et les Assurances Agricoles" of the "Conseil International Scientifique," which in 1927 dealt thoroughly with all matters relating to the Ameliorations Credit, has left unsolved the problem of delimitation and classification of ameliorations (Cf. Inst. Intern. d'Agr., *Documentation*, etc., and especially pp. 225–6).

[2] Cf. p. 27 and 49.

Ameliorations Credit all credit transactions aiming at the reinforcement of capital, or the granting of loans for (*a*) agricultural ameliorations proper (initial clearing up of wild land and rendering it fit for cultivation, amendment of the soil and slight land improvements thereon, radical changes in methods of cultivation, creating plantations covering the soil for a period exceeding a year and improving it at the same time (as: Shrub trefoil, Hen's bill, etc.), small reforms and reorganisations in respect of buildings belonging to the agricultural enterprise, and so forth, and (*b*) the establishing of orchards, vineyards, and similar tree plantations (excepting reafforestation).[1]

We shall include, on the other part, under Land Ameliorations Credit all Agricultural Credit transactions carried out for the purpose of: (*a*) works of drainage and drying up, irrigation, water supply, preserving and protecting the estate, fencing, road-making, utilisation of electricity, reafforestation and the like; (*b*) for the reconstruction or radical remodelling or transformation of buildings belonging to the agricultural enterprise; (*c*) for acquiring land destined to facilitate the carrying out of any land improvements on the estate, and (*d*) for any other similar purpose.[2]

Comparing now agricultural and land ameliorations with regard to their rendering, we may remark that, as already explained, the capital used for the former, apart from proving fruitful in the earlier stages, gives a return far superior to that of capital incorporated in land ameliorations. Another characteristic of agricultural ameliorations proper is the possibility, in most cases, of their being effected gradually, which is not the case with most land ameliorations.

There are, therefore, unquestionable direct and indirect advantages in favour of the former, for the agriculturist, and also for the capitalist. This last item is of substantial importance and, from the agricultural point of view, especially so during periods of scarcity of economic means.

For the reasons stated, the utility of distinction between

[1] *Vide*: p. 27. [2] *Vide*: p. 27.

the Agricultural Ameliorations Credit and that of Land Ameliorations is self-evident.

Owing to the differences existing between the two, the employment of different methods and guarantees for their transactions is self-imposed.[1] Whilst the securing of capital for Land Ameliorations Credit very often proves impossible, it becomes absolutely possible in respect of agricultural ameliorations.

On the other hand, from the point of view of agricultural economics, the starting of improvements from agricultural ones is imposed, as a rule, as it is more profitable. Only in cases where these are in some way dependent upon land improvements may the advisability of giving the preference to the latter be considered. The main object, therefore, should be the organising of the Agricultural Ameliorations Credit.

(7) *The Contemporary Organisation of Ameliorations Credit.*[2]

(a) *Determining reasons.*—Apart from historical reasons,

[1] For the first, for instance, as a rule, a privileged conventional mortgage suffices, whilst for the second a regular first mortgage is usually sought for.

[2] Originally, *no distinction whatever was made between Agricultural* Ameliorations Credit and that of Land Ameliorations. Nevertheless, from contents of historical texts, we are enabled to make the distinction on the basis of the limits as determined presently. So, we find that before the past century there is no mention of an absolutely definite Agricultural Ameliorations Credit; on the contrary, we have proofs of the existence of the Land Ameliorations Credit dating from ancient times. *Dio Cassius* (*Roman History*, LII, 28, 3), mentions it for the first time (address of Mecenatus to Augustus concerning the aid to be granted to proprietors who were open to carry out land ameliorations. The necessary financial means were supposed to be forthcoming from the sale of public property).

In mediæval times we find this kind of credit under the disguise of "implanting relations." (In fact, the "implanting" pre-supposes: (1) the inability of, or the lack of funds for, or lack of willingness of the owner to carry out certain works and improvements unavoidable for the satisfactory exploitation of his land; (2) the undertaking of these works—consisting at least of initial clearing up of wild land for rendering same fit for cultivation, and related operations— by a third party, having at command the means required for the purpose; (3) the granting to the latter of adequate considerations comprising the concession on favourable terms, of the working of the land for a given period—usually for life, or an unlimited period—allowing for the carrying out of the necessary works, as well as the enjoyment of the benefits to which the implanter, or his heirs, are entitled. Therefore, undoubtedly this is a case of a special form of real Land Amelioration Credit.)

At the beginning of the last century, in France, a special law contained provisions regarding the carrying out by a third party of drainage and

and the more general economic ones, as well as other general and specifically local reasons not directly related to the substance of Ameliorations Credit, the very nature of the Ameliorations Credit, the ends at which it aims, and the special conditions governing the attainment of these aims, are the factors determining its organisation.

We consider it useless to explore the former; as regards the nature and aim of the Ameliorations Credit, and its peculiarities and qualities, the investigation already made sufficiently shows the direction to be followed.

(b) *The Institutions indicated for transacting the Credit.*

1. *Those theoretically indicated for the purpose.*—Theoretically, the institutions transacting long-term mortgage credit, and disposing of, or being able to secure the necessary financial means in favour of this branch of Agricultural Credit, are better able than any others to transact the Amelioration Credit,[1] especially the Land Ameliorations Credit, at least as far as securing the necessary capital is concerned.

But this is not enough, nor is it the most important point.

2. *The necessity of further specialisation.*—What excels in this connection is the ability of the institution to judge how far, technically and financially, a given improvement for which a loan is sought is profitable. Upon this depends the security of the loan. It is, therefore, clear that such transactions require further specialisation, and consequently an

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drying works by contract, and it sanctions a privilege with retroactive effect in favour of the person undertaking the works as against any third party.

About the middle of that century, Land Ameliorations Credit took its definite modern form—first in England and Ireland (Law of the 28th August, 1846). The law sanctioned the granting by the State of long-term loans to persons undertaking drainage and drying works against a privilege constituted on the estate in favour of the State (the term for the repayment of such loans was fixed at twenty-two years, and the debt-sinking instalment cum interest at the rate of 6½ per cent.). Germany followed suit with her "Landeskultur-Rentenbanken" (Law of 1861)—the pioneers of the Agricultural Credit Institutions specialising in Land Ameliorations Credit.

[1] *Vide:* "Résolutions adoptées par la Commission pour le Crédit et les Assurances Agricoles" of the "Conseil International Scientifique," in Inst. Intern. d'Agr., *Documentation*, etc., p. 225.

adequate organisation and technical training of the credit institution handling this business.

In reality, in the Ameliorations Credit the creation of the wealth-producing source—which represents the additional, and very often the only guarantee for the capitalist—follows immediately upon the granting of the loan. Therefore, this kind of credit must needs enter into the consideration of technical and technico-economic questions.

3. *Attributes of Mortgage Institutions.*—The mortgage institutions are admittedly specialised in the issue and disposal of mortgage bonds, and other similar titles, as well as the control and valuation of mortgage guarantees. It remains for them to occupy themselves with the question of technical and financial prevaluation and valuation of the betterments to be carried out. Especially if these credit institutions are often additionally dealing with Agricultural Credit business and are well acquainted with the specific conditions of agricultural production—they represent the ideal organisation for handling the Ameliorations Credit.

4. *In the absence of Mortgage Institutions.*—But the question arises: who is to be entrusted with the transacting of Ameliorations Credit in countries where appropriate mortgage institutions do not exist? Is it better to make use of existing institutions of short-term Agricultural Credit, or to create special credit institutions for operations in Ameliorations Credit?

(*a*) *The Unsuitability of Personal Credit Co-operatives.*—Despite the already proved difference between long-term and short-term credit, both as regards economic character and special conditions in their working, the transacting of short-term credit by mortgage institutions is not excluded. On the contrary, the transacting of Ameliorations Credit operations, and, generally, of long-term credit transactions, by institutions of short-term credit, and especially by co-operative institutions—as, for instance, credit associations of the Raiffeisen type—is not advisable.

This is because, whilst the adaptation of mortgage institutions to the transacting of short-term credit is not beyond their reach, the short-term institutions (especially, those of

a co-operative character such as the already mentioned credit associations of the Raiffeisen type), in their capacity of institutions created exclusively for short-term credit operations, cannot so easily adapt themselves to the requirements and methods demanded by the Ameliorations Credit.[1]

(*b*) *Exceptions as regards purely Agricultural Ameliorations.*—An exception might probably be made with regard to Agricultural Ameliorations proper, which might be reinforced by credits granted by agricultural banks which do not specialise in mortgage credit operations. In similar instances the privileged mortgage is indicated as a guarantee.

(*c*) *Necessity of Creating Special Institutions.*—From the foregoing it is evident that wherever no institutions are to be found specialising in mortgage credit operations, it is advisable to entrust the transacting of the Ameliorations Credit to institutions specially created for the purpose.

(*d*) *Suitability for the purpose of the Immovable Property Credit Associations.*—As far as Mutual Liability Credit is concerned, the Immovable Property Credit Associations of the "Landschaften," or other similar type, are undoubtedly suitable for transacting Ameliorations Credit operations.

(8) *How the Financing of the Ameliorations Credit could be secured.*

Among the factors hindering the sufficiency of the Amelioration Credit those due to exceptional anomalous conditions (war, rebellion, etc.) and their consequences (money instability, etc.), usually dissappear with the vanishing of the causes of these conditions, or a little later on.

As regards exterior factors emanating from the ordinary regular situation, these require special attention, because the very being and general evolution of the Ameliorations Credit depend, to a great extent, upon the creation of favourable surroundings.

Wherever the standing laws of every description put

[1] On this point, the "Conseil International Scientifique Agricole" (during their November 1927 session) pronounced themselves that the short-term credit institutions of the Raiffeisen type of credit associations could possibly—provided they had a special organisation—occupy themselves also with long-term credit operations, but, as a rule, they had better avoid these (Cf. Inst. Intern. d'Agr., *Documentation*, etc., p. 226).

obstacles in the way of this branch of credit, either directly or indirectly, or are not favourable to its development, they should be adapted to the requirements of the branch, and special attention should be paid to the question of guarantees. And in cases where the legal validity of land ownership and land property in general do not present the required elements for inspiring full confidence, the necessary measures should be taken to amend these conditions.

As regards the form of real estate property, the co-operative organisation can overcome the disadvantages arising out of its frequently fragmentary nature. Wherever this fragmentary condition is of recent date, as the result of the application of agrarian reform or of endeavours to establish settlers on the land, and the effecting of ameliorations coupled with lack of capital is more strongly felt, special care must be taken that the co-operative organisation be almost contemporaneous with the newly established status of ownership.

The advantages of a co-operative organisation are also not inconsiderable for meeting the disadvantages arising from the system of land cultivation. In a word, the co-operative organisation represents an auxiliary factor of the greatest utility for the handling of Ameliorations Credit operations.

Special attention should also be paid to the burdens of taxation which, in certain instances, represent a very serious obstacle to the development of the Ameliorations Credit.

The education of the agricultural classes, and notably their enlightenment as to the advantages obtained through ameliorations, must also not be lost sight of.

Reverting now to the inner factors, we must pay special attention to two points: the guarantees and the productiveness of the improvements.

The guaranteeing of the capitalist should be, as we have already pointed out, as full as possible. A strict control and careful choice of the improvements to be carried out must be effected, and preference should be given, as a matter of principle, to those forms the productiveness of which renders it possible to pay the current market rate of interest.

But if it becomes impossible to find the necessary means

on the local free market, then the intervention of the State, and, as *ultima ratio*, recourse to the foreign market, become unavoidable.

E. Importance of the Limits and of the Real Contents of the Agricultural Credit Branches

It is not always possible in practice to draw an absolute distinction between the various categories of Agricultural Credit. Their respective limits are not and could not possibly be absolutely defined and separated, as is usually the case with subdivisions and classifications of a similar nature, even when these limits are distinctly set forth *a priori*. Even where there is an absolute distinction of agricultural loans into categories, it does not always prove easy to classify a certain loan, in view of the confusion of the limits of the various branches. Apart from that, the loan is very often not granted for a specific, absolutely defined object, but simply for assisting the agriculturist in the whole of his requirements, or the source of a given obligation may arise from reasons unrelated to any specific object; for instance, long-term obligations arise out of the conversion of short-term loans for current exploitation.

It is also possible for one and the same agricultural loan to have been granted for covering not a single but several needs, belonging to different categories, or even, although granted for a single object, it may be utilised for many ends, and this, either the credit institution interested tacitly tolerating it, or altogether unknown to the latter.

There exist, too, and are daily created, certain transitory situations, as in the instance referred to, of the conversion of short-term loans for current exploitation into long-term ones.

Anyhow, all these items are only of minor importance. What is of importance is that all credit placed *in toto* at the disposal of agriculture should be rationally repartitioned between the various Agricultural Credit branches in conformity with existing actual needs and the indications derived from the sciences of rural economics, agriculture,

economics and sociology, and that the organisation and general situation of the whole of the Agricultural Credit formation in a given country be of such a nature as to allow —in spite of the co-ordination of the work of the various Agricultural Credit branches amongst themselves—for absolute liberty in disposing of the economic means pertaining to each such branch.

The general organisation and the directive lines should be carried in a way allowing for an agriculturist utilising a credit from one of the branches, not to be precluded from recourse to any of the others.

CHAPTER VII

THE INDEBTEDNESS OF AGRICULTURE

A. The Indebtedness

(1) *Importance of Information as to Indebtedness in the transacting of Agricultural Credit.*

The ascertainment of the indebtedness and of the credit position of agriculture within a given space and time represents the best means at our disposal for feeling the pulse of, and defining the policy to be followed by, Agricultural Credit institutions. At the same time, it indicates to us what are the activities of non-organised credit in rural districts, and what may be their "resultant."

The greatest importance is attached to finding out the extent of transitory and of floating indebtedness, the connection between the two, and, equally, that of personal and real indebtedness, together with all other relative matters. By comparing all these data with the conditions prevailing at the time when the question is studied, it becomes possible to make useful deductions as to the transaction of credit within a given time and place. With a comparison of notes on different periodical investigations, a conception may be formed as to the evolution of things in a given place and within a given time. Thus the Agricultural Credit institutions having before them a picture of the situation in the present, as well as lessons from the past, are able to regulate their own policy in a scientific and expedient manner. Lastly, the comparison of the situation prevailing in various places and its evolution can render excellent data for the completion of the work of Agricultural Credit within the international frame.[1]

A study, therefore, of the credit situation of agriculture

[1] *Vide:* below, pp. 225 sqq.

is essential for Agricultural Credit institutions, as well as for all organisations interested in the development and advancement of agriculture, and, with greater reason, for the states themselves with whom lies, in the first instance, the tracing and the applying of the agrarian policy of each country.

(2) *The Transitory and the Floating Indebtedness of Agriculture.*

The floating indebtedness of agriculture is that which exists as it were permanently, being composed of credits which in view of their nature and source are solely destined for the service of agriculture. On the contrary, transitory indebtedness is that arising in exceptional circumstances and which ceases to exist, at least partially, immediately the reason for its existence has ceased, or, at least, not long after the needs for the satisfaction of which it has appeared have been met. This last form of indebtedness is usually the outcome of exceptional needs in agriculture, arising from destruction of crops, from radical changes in cultivation systems, from the realising of agrarian reforms, or colonisation and so forth. More seldom it may result from excessive offers of capital, which, not finding more profitable uses elsewhere, is turned towards agriculture; the latter availing itself of the opportunity offered for carrying out works which would not have materialised but for the capital put at its disposal under the conditions mentioned. It is, therefore, a case of alien credits, only temporarily utilised in agriculture.

(3) *Personal and Real Indebtedness.*

Long-term indebtedness may be considered as composed mainly of floating credits of agriculture; the distinction, however, between floating and non-floating credits does not present such great importance for it.

Where this distinction has a considerable weight is in short-term indebtedness.

Where agriculture keeps free the margin of her mortgage indebtedness, personal indebtedness and that against

pledges, however great, should not inspire any serious fears, provided always that the indebtedness corresponds to the actual needs of production and does not allow of burdens heavier than it can possibly carry. The fears become fully justified whenever the agriculturist burdens his land by heavy mortgage and other similar obligations, even where he has no other obligations either of a personal or a pledge character. The reason for this is primarily owing to the nature of land burdens generally—irrespective of the forms under which they may exist (mortgage, land encumbrance, etc.)—and their consequences.

B. Limitations of Mortgage Indebtedness and the Freeing from Land Burdens

From both the economic and the social standpoint, it is obvious that the owner of the land should be the person cultivating it. But, in cases where the land indebtedness exceeds a set limit, the owner-agriculturist will remain owner only in appearance and is reduced, in substance, to the exploiting of the land for account of his creditor.[1] This consideration has led to the idea of limiting land indebtedness (regulation thereof, etc.).

(1) *Mortgage Indebtedness of Agriculture and the Reasons which have led to this.*

Mortgage Indebtedness has become in many, especially European, countries very widespread, since the time of freeing of agriculturists and the changing of the shape of landed property, and, equally, from the time that cultivation of the soil has seriously advanced in intensification and considerable works of land and agricultural improvements have begun to be carried out. In the newer countries (America, Australia) the stimulus for this and its main factor has been the reaction for production. The increase of land indebtedness was, certainly, a kind of a necessary evil under the circumstances mentioned, but in certain countries it has taken such strides and grown to such dimensions that

[1] Cf. Pareto, *op. cit.*, p. 436.

it has justly created serious fears both among scientists and in the political world. In order, however, to criticise it and to derive the necessary lessons from the phenomenon we must not limit ourselves to the knowledge of the actual amount of real indebtedness per unit of space, but must seek data as to the value of agricultural production in the districts under examination. In many instances the average value of farming property in the district may serve as an indication, although this does not at all times prove a sure one.

(2) *Measures proposed for Overcoming the alarming Increase of Land Indebtedness.*

To overcome the alarmingly continuous and beyond measure swelling of land indebtedness, it has been found advisable to set a certain limit to land obligations, and wherever this has not as yet been reached, not to allow for these to exceed it in future. Where this limit has been already exceeded an endeavour must be made to realise a reduction (*dégrèvement*) of the land debt down to the level of the said limit. Some have pronounced themselves in favour of a more radical cure by insisting upon the wiping out of all existing mortgage debts.[1] Finally, the protection of small property ownership by decreeing its unalienability is not unconnected with the views exposed above.[2]

(3) *Incorporation of Mortgage Credit.*

In order to avoid exceeding the limit of land indebtedness imposed, incorporation of landed property and the dependence of further land indebtedness upon the common consent of all the landowners interested have been proposed.[3]

(a) *Rodbertus' View-point.*—This point of view, it would

[1] Cf. below, The Redemption of Debts, etc., pp. 164 sqq.
[2] The Tendencies of the Legislation, in: The Mortgage Credit in Agriculture, p. 93, also below: The Creation of a Category of Unalienable Small Property, pp. 167 sqq.
[3] Something of the kind occurs, to a certain degree, with the Mortgage Association Banks (cf. in connection: Philippovich, *op. cit.*, p. 323).

appear, is not only supported by Rodbertus,[1] but, in further generalising, he points out that the self-government of Agricultural Credit problems by the land-owning class, through the channel of the general Agricultural Credit institution (its proper section), ought not to be limited to the administration solely of credit problems proper, but should also regulate all other connected matters.[2]

(b) *The Solution proposed by Baron von Vogelsang.*—Baron von Vogelsang lays down the basic principle that the contracting of a land loan should only be permitted for the purpose of securing means for cultivation needs, or for ameliorations. That is to say, he excludes even land loans in connection with the paying off of heirlooms and the extension and/or the purchase of land and farming property.

He admits that the regulating of land credit, and of all matters connected therewith, should be in the hands of a corporative organisation within the aforestated limitations, but he considers, nevertheless, that the above must be preceded by legislative measures forbidding the transaction of real estate credit and by the redemption of all old-standing mortgage debts.[3]

(c) *The Proposition of L. von Stein.*—Lorenz von Stein proposed the compiling of an agricultural real estate property register, in which the insertion of all landed property disposed of by auction sales should be obligatory, the owners of the remainder being at liberty to register theirs, or not to register. Insertion in such registers would bring about for the future the foreclosure and the indivisibility

[1] Rodbertus, *Die Kreditnoth des Grundbesitzes;* also: *Die Nothwendigkeit einer neuen Grundbelastung und Grundentlastung*, and: *Die sozialpolitische Bedeutung der hypothekarischen Grundentlastung.*

[2] A confusion of this Institution with the "Landschaften" should be avoided. The jurisdiction of the former on burdened Land Property is limited to a control, and, if need be, to the ordering of a seizure on the real property of debtor members of the association—when proved behindhand with their payments—and the limit of loaning is one fixed in advance, whilst it is known that the "Landschaften" are covering the whole of the rural district in which they are transacting Credit, and are also keeping Mortgage Registers (instead of the Court Authority), and the loaning limit with them bears a conventional factitious character (Cf. in connection: The Real Estate Credit Co-operatives, pp. 97 sqq., and also the previously mentioned sources *re* "Landschaften." Also: Philippovich, *op. cit.*, p. 323.

[3] Cited by Philippovich, *op. cit.*, p. 323.

of such property, and its limiting as regards land indebtedness within that of the respective co-operative association, composed of the whole of the agricultural property thus registered. In this way von Stein anticipated that, in one generation, half at least of the agricultural property, possibly even two-thirds, would be freed from its mortgage burdens.

The remainder of such property, left out of the register, would not change even slightly in its actual situation, and would be at liberty to address itself in whatever direction it chose to secure the requisite credit, and to contract loans to any amount desired and actually offered.[1] But this proposition of von Stein is not very remote from the views expressed a year earlier by von Vogelsang.

(d) *The Schaeffle Projects.*—Following von Stein's proposition, the first Schaeffle project was formulated. The latter provided for the obligatory constitution of landowners' corporations, in which only legally exempted persons were freed from the obligation of participating. The requisite financial means are secured by the said corporations through the channel of their unions, which should issue bonds (*Lettres de Gage*) to this effect. No loan may exceed half of the actual productive value of the real estate, and its aim and utilisation should be for purely productive purposes and/or ameliorations.

Anybody not utilising his loan for the objects mentioned is called upon to refund it, and, in case of inability to do so, as well as in the instance of non-timely payment of instalments, the estate is lost to him automatically, and without any procedure whatever becomes the property of the corporation. On the other hand, the latter is under obligation to effect the redemption of any farming property, situated within its jurisdiction area and offered for sale by one of its members, at a price somewhat lower than its valuation originally made. All the said property, as well as the property reverting to its ownership on account of a member not fulfilling the obligations he has undertaken, is disposed of by the corporation by auction sale, or, in the case of lack of buyers coming forward, is to be leased to tenants.

[1] *Vide:* Lorenz von Stein, *Bauerngut und Hufenrecht.*

The contracting of loans against mortgage is strictly and absolutely forbidden to the members of the corporation, and no forcible executions by order of the court are allowed, unless it is a case of obligations towards the corporation.

Members are, however, allowed to avail themselves of outside personal credit emanating from personal credit co-operatives, and the landowners' corporation guarantees this to the extent of half of the value of the real property owned by the respective member. The corporation is entitled to transform these obligations into mortgage ones. The avoidance of eventual future land indebtedness is ensured by the non-insertion of eventual obligations derived from inheritance, also of any balance out of the purchase price of the real property.[1]

In his second project, set forth later, Schaeffle does not exclude mortgage credit altogether, but limits himself to its restriction, and he admits generally the contraction of loans by the corporations.[2]

(e) *Bill introduced in the Austrian Parliament.*—Out of the various projects governed by the afore-stated principles, the Austrian Bill of 1893 calls for special attention.[3] It provided for the constitution of professional companies of agricultural and timbered land property reunited by districts into second degree companies. By this bill revenue rendering real property was created (*Biens à Rente, Rentengüter*), the administration of which was the basic aim of each association, without excluding from them the ordinary objects of rural country associations. Their chief aim was the gradual lightening of the burdens on agricultural property and the creation of a freed property. The local authorities were to partake in the election of their administration commissions.[4]

[1] Cf. Philippovich, *op. cit.*, p. 325; also: Schaeffle, *Die Inkorporation des Hypothekarkredits*.

[2] *Vide*: Schaeffle, *Kern- und Zeitfragen*, pp. 309 sqq.; also: Philippovich, *op. cit.*, p. 327.

[3] The said bill has been introduced in the Parliament by the Austrian Government, having been influenced by the atmosphere then prevailing and, specifically, by the conceptions of von Stein and Schaeffle—the bill itself representing an amalgamation of the ideas of the latter.

[4] *Vide*: Philippovich, *op. cit.*, pp. 327–28.

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(f) *Comparison of the various Projects.*—In comparing the various projects, we certainly meet with apparently substantial differences in them, but these differences are, as a rule, related to secondary points, and especially, to the procedure of the executive. The ideas generally prevailing tend to the formulation of great restrictions as to indebtedness in general, not only from the point of view of its volume, but its sources and objects also, and to the exclusion in substance of the contraction of loans against mortgage and the redemption of existing debts over and above at least a certain fixed percentage of the value of each farming property. This is the minimum of the objects aimed at. The attainment of these aims is realised through the incorporation of agricultural property in such a way as to seriously limit the personal initiative of the landowners. In conclusion, out of all the conceptions on the subject, those of Schaeffle appear to be the most complete, while the Austrian project is comparatively the most practicable of them all.

(g) *Criticism of the Incorporation of Mortgage Credit.*—Nevertheless, it is not difficult to see at once what radical changes are needed to regulate the credit system of rural districts in conformity with the above ideas. These changes affect the whole structure of the organisation of rural districts and are accompanied by many disadvantages as well. First there is the notoriously mechanical defined limit of indebtedness, which it is desired to enforce also as regards personal debts. Apart from its arbitrariness, it contains also a fatal inequity. Taking as granted that very few possess, at a given moment, the whole sum required for the purchase of a farming property, or for the redemption of heritage shares belonging to other parties, forbidding of the contraction of loans against the guarantee of farming property under similar conditions would amount to an abolition of free circulation for landed property. Examining the matter widely, we find that this abolition of circulation is, so to say, general, for even where there does not exist a formal prohibition of loans against landed property, in substance this interdiction exists as a fact. The consequences of a situation thus created would be really

ruinous from every side. Not only would the raising of the hard-working small-holder to the level of an owner, cultivating his own land, become absolutely impossible, but also all farming owners with small or medium enterprises would be reduced in time to the rank of tenant farmers on the huge agricultural property, which would revert, more or less permanently, to corporation ownership. In a parallel way, a special class of rural superowners (*latifundia*) would be formed, composed of big capitalists, most of whom would not have even the slightest relation with the agriculturist's occupation. Equally irksome consequences would be brought about by the eventual suppression of all initiative and responsibility of the peasant through the subduing of his personality to the coercion of the corporation as a result of this manner of credit tutelage.

As was reasonably remarked by Sering,[1] such a situation, if created, would take away from the peasant just those qualities which represent his greatest economic value as an organ of production. Summing up the remarks of Philippovich[2] in connection with the Austrian Bill, and taking into account also the social and humanitarian aspects of the question, we conclude by saying that, if the innovations under discussion were to materialise, it would drive the greater part of the class of agriculturists to such a state of actual serfdom and mechanisation as to make them long even for the return of feudal days.[3]

The shaping of agricultural property in the manner des-

[1] General Assembly of the "Verein für Sozialpolitik," 1893; *Schriften*, Vol. LVIII, p. 144.

[2] Cf. Philippovich, *op. cit.*, p. 328.

[3] Regardless of the above, past students of the questions related to the incorporation of mortgage credit are found to be divided in opinion. Most of them, at any rate, declare themselves against these restrictions, at least as outlined in the above projects. In addition to the sources already mentioned, *vide:* Miaskowski, *Erbrecht und Grundeigenthumsvertheilung*, Vol. II, pp. 231 sqq.; Ruhland (a Report), *Der Gedanke korporativer Bodenkreditorganisation und seine Kritiken*, in: *Zeitschrift für die gesammte Staatswissenschaft*, 1886, p. 464; *ibidem: Die Lösung der landwirtschaftlichen Kreditfrage;* Conrad's conceptions in "Verhandlungen" of the "Verein für Sozialpolitik" (*Schriften*, Vol XXVIII, pp. 23 sqq.); Schmoller, *Vorschläge betreff. den ländlichen Hypothekarkredit*, in: *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirthschaft des deutschen Reichs*, 1887, p. 147; and: Buchenberger, *Agrarpolitik*, II, p. 264 sqq.

cribed above, the unavoidable lowering of land value, especially by the lack of a sufficient number of buyers, the frequent changes in cultivators and the scarcity of adequate means, would in themselves represent anything but ideal conditions of agricultural economy.

(4) *The Redemption of Debts joined to the Limiting of further Indebtedness.*

(a) *The Redemption of Existing Debts by the State and the Limitations.*—A more radical solution of the problem of freeing landed property from the evil of mortgage burdens is presented by the proposed total *sinking of the existing* land burdening, and the contracting, under many restrictions, of eventual new mortgage loans (for betterment purposes only). But, instead of the complicated outside mechanism, devised in the projects for the "Incorporation of Mortgage Credit," here we have simple provision for the intervention of, or aid from, the State. The latter would issue special bonds, which would afford the means for writing off the registered mortgages, and the owners of the agricultural property thus freed from their burdens would undertake the obligation to repay to the State their debts arising out of the reasons stated, either all or within reasonable measure.[1]

(b) *Criticism of the System.*—This system is far more simple than any one of the others; nevertheless, the results of its application differ but slightly from those emanating from the incorporation of mortgage credit, especially as regards the shaping of agricultural property.[2] In addition, it is contrary to elementary justice to burden the whole of the population with the debts of interested owners. Besides, in many instances, an insolent exploitation would take place, in others, again, the thing would appear tragi-comic, viz., in instances when the State would be under obligation

[1] *Vide:* Preser, *Erhaltung des Bauernstandes und die Grundeigenthumsfrage;* Eberle, *Grundeingenthum und Bauernschaft,* Part II; Philippovich, *op. cit.,* pp. 329 sqq.; also Ruhland, as formerly cited.

[2] *Vide:* Comparison and Criticism of the Incorporation of Mortgage Credit, p. 162.

to effect the redemption, and the whole of the country would be burdened with debts contracted with a most inexcusable lightheartedness. Therefore, the practically *quasi*-unanimous rejection of similar projects, at least in practice, has been fully justified.

(5) *The General Limit Restriction of Indebtedness.*

Owing to the unprofitableness of all the proposals regarding "incorporation" and "redemption" of mortgage debts and the impossibility of their realisation, it was deemed advisable to confine endeavours to limiting the restriction of indebtedness without undue interference with the liberty of owners. Those owners whose property was already indebted in excess of the limit to be set, would simply have to use their best efforts to relieve it as soon as possible from the excessive burden, while no one would be allowed in future to exceed the limit fixed.

(a) *Sering's Project.*—The proposition of Sering, governed by the above principles and providing for an optional limit, is interesting.[1] Its adoption would be facilitated by the public services, suitably reinforced by the Agricultural Bank, in instances of settlement of inheritance cases. Any future mortgage indebtedness would be subject to set formalities and regulations, and any eventual exceeding of the limit would not give the creditors the right to be paid for the excess out of the real property. Any second mortgages already registered would have to be wiped out, and for their freeing, special loans on the debt-sinking by instalments basis would be granted at convenient interest rates. The intervention of the State and of public institutions could be extended up to a redemption of the rural property and its re-sale on profitable conditions for the buyer, under the option of bringing it into the category of "limited" real property.[2]

(b) *Criticism of the General Limit Restriction.*—The idea

[1] This was adopted by the German Agronomic Council in 1897.
[2] Cf. Philippovich, *op. cit.*, pp. 331–2.

of establishing a limit of mortgage indebtedness could not meet with the opposition shown in respect of the "incorporation" and the "redemption" of mortgage debts, on account of its unquestionable theoretic advisability and its simple practicable presentation. In practice, however, the defining of the limit proves very difficult indeed, considering that it is naturally subjected to the influence of a multitude of factors—in many cases of a transitory character—unrelated to the actual regular value calculated on the basis of the yield (*ertragswerth*) of the land itself. It is a very frequent occurrence that the personal qualities of the owner, viz., his knowledge, capability, enterprise and the economy governing his activities, affect this definition. The valuation of the yield, on the other hand, depends also upon the conceptions of the person undertaking this. In many instances, therefore, we shall find a limit which is exceptionally and dangerously high, whilst in others the limit would prove too restricted to allow for the realisation of the loans required to cover the needs of landed property. But even when the limit may have been fixed in a satisfactory manner, its working may prove prejudicial in the presence of any unforeseen accident, owing to which it would be to the owner's best interests to realise a new loan, although his former loans may have already reached the limit. It is, therefore, disputable how far the general limit restriction of indebtedness—which unquestionably is opposed to the principles of a free personal and responsible administration by the agriculturist himself—is actually advisable and practicable. The thing is practicable with the "Landschaften," where the rational limit restriction is not only imposed by the interests of the whole and of the members severally, but where the understanding also of these interests is absolutely possible.[1] In a more general way, the limit restriction, under its rational and flexible meaning, is applied, in substance, without its full formality, wherever the transacting of Real Estate Agricultural Credit is monopolised by institutions bearing a public utility character, properly organised and disposing

[1] *Vide* Philippovich, *op. cit.*, pp. 332–3.

of abundant means. In such an instance everyone is bound to admit that it proves really beneficial.[1]

C. The Creation of a Category of Unalienable Small Holdings

(1) (a) *Basis of the Problem.*—If certain restrictions are generally imposed—at least in theory—as regards land indebtedness, they are much more in their right place in connection with small agricultural holdings just sufficing for the actual needs of a single agriculturist's family, because the taking advantage by the lender of some unreasonableness or frivolity on the part of the head of the family, or of some turn of circumstances in connection with any of the frequent although transitory difficulties experienced by agriculture, or even any accident, may be sufficient to deprive the small-holder's family of the means by which its free existence is secured, and to transform its members into simple agricultural labourers.

(b) *The History of it.*—Under the influence of the above conceptions, efforts have been made, in the New as well as in the Old World, to create a category of small agricultural property which would be more or less protected against forcible disposal by auction sale. But whilst in America, the cradle of practical realisation of these ideas,[2] a wise moderation has prevailed, in the Old World, and especially in Central Europe, theoretical discussions have arisen on the subject based upon the most extreme solutions, which naturally could not be adopted.[3]

(2) *The "Homestead" in the United States of America.*

In America "homestead" affairs have not been uniformly regulated, although the general lines governing them

[1] Against the limit restriction, and the redemption of mortgage debts, have formerly pronounced themselves: Jäger (*Agrarfrage*, Part II, pp. 310 and 355), Buchenberger (*Agrarpolitik*, II, p. 238; also *Grundzüge der deutschen Agrarpolitik*, p. 108), and Freiherr von Freiberg (*Die landwirtschaftliche Verschuldungsfrage*, pp. 80 sqq.).

[2] The Republic of Texas Law of the 26th January, 1839, is the first act introducing this institution in America.

[3] Lengthy discussions took place in the German Agricultural Council in 1891 and 1893, when the introduction of the institution was rejected. (Cf. Buchenberger, *Agrarpolitik*, II, pp. 247 sqq.)

present only slight differences. The right of making use of the "homestead" regulations belongs, as a rule, to heads of families only, and this protective measure applies not only to rural but also to urban small properties. The exemption applies to that part of the personal property absolutely necessary for everyday needs of the family and the live-stock and implements required for agricultural production and small home industries. This exemption, however, has distinct limits relating, in some instances, to the space and extent of the property,[1] and more frequently to its value.[2] What must be specially underlined is that the exemption does not cover all forcible executions without exception, and specifically those emanating out of fiscal obligations due to pre-existing debts,[3] obligations contracted for the purchase of the property, and the like. But even with regard to obligations arising out of the formation of the "homestead," it is within the rights of the person to which the privilege of exemption is granted to renounce the latter in respect of obligations he may eventually consider necessary. In such occurrences, however, the consent of the wife of the owner is often also required.

In order to obtain for farming property the privileges of "homesteads" there are in many states certain formalities to be fulfilled, whilst, in others, the very fact of the owning of the property by a family carries automatically all the legal consequences connected with "homesteads."[4]

(3) *The "Homestead" idea in Central Europe.*

In Central Europe, under the denomination of "Heimstätten," it has been attempted to apply an institution for

[1] The most usual limit of space of agricultural property is fixed to be 60 acres.

[2] Fluctuating between $100 and $5000.

[3] An exception from this rule has been made in respect of "homesteads" created especially for soldiers, etc., on national lands and regarding which no forcible executions are operative in connection with debts contracted previous to their formation.

[4] Cf. in connection: Sering, *Die landwirtschaftliche Konkurrenz Nordamerikas in Gegenwart und Zukunft*, pp. 155–168. For further and more up-to-date information, *vide*: A. M. Kale, *Homestead Exemption Laws*, and for a very short but concise and fairly sufficient documentation: J. W. Jenks, *Homestead and Exemption Laws of the United States*, an article on the subject in Palgrave's *Dictionary of Political Economy*.

the protection of small agricultural property—land, agricultural buildings, the dwelling of the owner, as well as his means and implements of cultivation—against forcible executions at law. The indebtedness of this sort of property would be permitted only up to half its actual value, and this in altogether exceptional cases, for the purpose of buying out the shares of co-heirs, or for ameliorations. Alienation of the property is impossible without the consent of the owner's wife. In order to avoid being cut up into lots, the "Heimstätte" are indivisible and are inherited according to the "Anerbenrecht." A similar institution has been proposed also for small urban dwellings.[1]

(4) *Criticism of the Idea.*

As far as the idea of limiting indebtedness and of protecting small family ownership presents itself under the mild form of the American "homesteads" it cannot be condemned. But under the extreme and unrelenting shape in which it has been tried for introduction in Central Europe, we do not find it differing from the already mentioned methods for the restriction of land indebtedness, excepting in its greater extent and the intensiveness of restrictions. It presents and even fatally augments the disadvantages of these methods. The credit of the agriculturist owner is limited to the absolutely personal; the inheritance liquidations—where there are no insurances—become very difficult, and what matters much more, considering the question from the point of economic education of the agriculturist and its influence on the whole of agricultural and social economy, the results cannot be other than lamentable, because the sense of absolute security would destroy with most agriculturists all prudence and regularity in their activities, as well as every bit of the spirit of saving and economy.

[1] Cf. Philippovich, *op. cit.*, pp. 334 and 335.

D. The Reform of Legal Procedure Conditions in respect of Executions by Order of the Court on Real Estate Property, etc.

(1) *The Dangers from inappropriate procedure formalities.*

If the misuses connected with mortgage credit represent the principal source of its disadvantages and dangers,[1] the bad conditions of procedure, and especially those relating to forcible sales by auction, very often contribute to the exploiting by the creditor of the agriculturist's difficulties of a transitory nature, in such a way as to lead to his absolute ruin.

(2) *Special Instances and the Measures imposed.*

The creditor frequently avails himself of the inability of the debtor to repay his debt in full at maturity, in order to obtain, by means of an auction sale, the ownership of the mortgaged property at a price far inferior to its real value owing to adverse market conditions and lack of other buyers. This usurious exploitation could be avoided if the courts were empowered to annul an auction sale in instances when, according to their estimation, the price realised would have been far lower than the actual value of the real property. To this end it has been suggested—especially as regards medium-sized agricultural property—that instead of an auction sale there should be " sequestration."

With regard to creditors not in the first rank, the " System of Guarantee " could be applied, according to which it is permitted to such creditor to provoke a forcible execution which only becomes operative after he has granted sufficient security for the creditors preceding him in rank to be fully guaranteed. On the other hand, the exemption of a small part of the agricultural property from any sale by auction,[2] and the inalienability, under set conditions, of

[1] *Vide:* The Disadvantages of Mortgage Credit and the Tendencies of Legislation, p. 93.

[2] A distinction must be made between the exemption from disposing by auction sale of this very small portion of land, and the absolute exemption of small property, in accordance with the theories which prevailed at a certain juncture in Central Europe in connection with the " Heimstätten."

the absolutely necessary agricultural accessories and of household articles of first necessity—where this inalienability does not exist, or is only partially applied—would surely give a more humanitarian character to eventual forcible executions.

An occasion for studying the question of reforms connected with procedure conditions of forcible executions on real property by order of the court was presented by the discussion regarding the "homesteads" and the "Heimstätten," but the fundamental reasons existed long before, and they were instrumental in bringing to the fore the "homestead" projects, and, more generally, the restrictions of mortgage indebtedness. But, whilst the radical remedies, viz., "incorporation," "redemption," "limit restriction of mortgage indebtedness," and even the "homesteads," especially under their extreme and unrelenting form, were so poor in results, the "Reform of the Procedure Conditions of Forcible Executions on Real Property by Order of the Court," despite its apparently small importance, contains, in its simplicity, an interest sufficiently practical to deserve special attention.

CHAPTER VIII

USURY IN RURAL DISTRICTS

(1) *Definition, Characteristics and Ascertaining of Usury.*

SOME four centuries ago, Concile de Latran gave the following definition of usury: "There is usury wherever there is a profit not arising from anything that is in itself able to render profit, and that does not contain either labour, expenses, or risks on the part of the lender." Along with Ch. Gide, we consider that Latran's definition is perfect.[1] What, therefore, characterises usury is the excessive profit enjoyed by the person granting the facility, as compared with the services rendered and risks run. The profit is usually obtained by the usurer through his exploitation of want, of exceptionally pressing needs, of ignorance or at least of the credulity of the person applying to him. In this connection the proper definition of a loan, or more generally of a transaction in usury does not depend solely on the interest rate charged, or the percentage of profit for the person granting the money, but on a multitude of conditions and the special circumstances of its realisation. It therefore varies in conformity with time and space.

(2) *Usury and the Rural Districts.*

Rural districts are an exceptionally suitable field for the development of usury. Many and varying reasons contribute to this end. Part of them are linked with insufficiency of Agricultural Credits and of the Agricultural Credit organisation, others with the rural surroundings, and others again with the very nature of agricultural enterprise. There are others which depend upon the level of education, the psychology and mentality of the agriculturist himself. Out of the said factors, special attention should be attached

[1] Cf. Gide, *Cours*, etc., II, p. 282.

to the great scarcity of and demand for capital in country districts, and especially among small cultivators.[1] As a rule the educational level of the agriculturist is low, his ability to distinguish the unprofitableness of a given loan or transaction is often found very deficient, and his psychology and mentality are such that, even where he has the preference between a public utility Agricultural Credit institution and a private money-lender, he often does not hesitate to choose the latter, for purely psychological reasons, and in the full knowledge very often that by so doing he is acting against his own interests. Thus the agricultural class falls more easily a prey to the claws of usury.

(3) *Forms under which Usury presents itself.*

Usury is usually spoken of in cases of charging excessive interest on loans. But it appears also under other guises, particularly in the shape of exploitation in connection with sale of goods, live-stock or machinery to the agriculturist as well as in connection with the financial facilities to an agriculturist upon his promise to sell his products to his creditor.

(a) *The usual Usury Loans in Money.*—Usury on loans is not limited to high interest rates charged. The rates of interest may be very low without excluding usury in cases of the reduction in advance of a fixed amount from the agreed loan, or when, in the agreement in writing, a sum superior to the actual loan is inserted. The same thing happens when discounting a credit or redeeming a debt, if from the one or the other of these transactions a loss results for the person availing himself of a facility. Extensive usury occurs very often on the renewal of loans, when the debtor, living under adverse psychological conditions, gives way without discussion to the rapacious tendencies of his creditor in the direction of any of the above-mentioned forms of usury. Besides, usury is not seldom concealed under cover of a penal clause for the agriculturist's failure to meet his obligations at maturity.

[1] *Vide:* Capital in Agriculture, pp. 24 sqq.; also pp. 104, 111, 125, 135, etc.

(b) *Usury Exploitation in connection with Goods sold on Credit.*—An unthought-of usury is often practised in connection with sales to the agriculturist of various merchandise: machinery, implements, manure, live-stock, seed, cattle food, articles of first necessity for his own and the family's upkeep, etc. The usual form of this usury is a disproportionate increase in the prices of these articles. In other instances we find it under the shape of cheating as to quality or quantity of the goods in question.

(c) *Combination of Loans with Obligations as to Sale of Agricultural Products.*—Finally, the usurer may grant the loan in kind or in money without any traces of usury whatever, but will bind the borrower as regards the disposal of his products, which the latter must undertake to deliver, after their being harvested, to his creditor at a price fixed beforehand, or to be fixed on delivery. The price is always disproportionately low as compared with market prices prevailing or likely to prevail at the time of the delivery of the products. Here also, penal clauses often represent perfect means for usurious dealings.

Instances of usury in granting the use of livestock, renting of land, etc.[1] are rare nowadays.

Apart from the instances mentioned, others are not excluded, as, for example, the forcible sale by auction of a mortgaged property and its purchase by the creditor at a price far inferior to its actual value.[2] Finally, and not so rarely, combinations of the above instances are noticed in practice.

(4) *The Consequences of Usury.*

The circulation of capital in agricultural enterprises being very slow, and usually leaving but a small margin of profit, the general principle of economic science regarding the necessity of reducing production expenditure to a minimum holds good much more in agriculture than in any other productive branch. Its burdening, therefore, by usury

[1] *Vide* in connection: Philippovich, *op. cit.*, p. 317, and also older writers.

[2] Cf. The Reform of Procedure Conditions in respect of Forcible Executions by order of the Court on Real Estate Property, p. 170.

obligations leads much more quickly to ruin than happens in any other branch of production. It has, consequently, been found necessary to try to protect the agriculturist from the rapacious tendencies of usury.

(5) *Measures against Usury.*

(a) *General Remarks.*—The evils attendant upon usury attracted at an early date the attention of philanthropists, scientists and leaders of nations, and various measures have been decreed against it. As far as the contraction of loans was, as a rule, made for consumption purposes, any interest-bearing loan could be characterised as a usury loan,[1] it was only right that—in spite of the opinion to the contrary of many economists—war was waged against the charging of interest, even where this might be altogether insignificant.

Since, however, most loans are contracted for the purpose of productive utilisation, a reasonable rate of interest is absolutely justified. Protective measures in favour of the creditor are even decreed. Concurrently, however, the war against usury is carried on in two ways: (1) through the medium of prohibitive legal measures providing also for legal sanctions, and (2) by the decreeing of measures for the economic strengthening of weak social classes, particularly of the agriculturist's class.

(b) *Legislation forbidding Usury and providing for Penal Sanctions.*—The prohibition against usury laws contained such severe penal sanctions, on which so many hopes were based by those who framed them, that it is disappointing to find on the whole how little they have attained their object. Granted the impossibility of strictly defining a common measure of valuation for the many instances of usury connected with a loan, a legal transaction or an agreement, and that the casual regulation of the problem in conformity with these instances proves unrealisable, it is natural that there are unavoidable evasions from justice in a multitude of cases unquestionably usurious, and, at the same time injustices may be created in respect of *bona fide* creditors. Thus the moral capital becomes cautious and fights shy—which is anything but

[1] Cf. *supra*: Definition of Usury, p. 172.

useful—whilst the usurious capital sets about to work at full swing, finding always the means both for making undue profits and for being in perfect order, at least formally, before the law.

(c) *Positive Measures against Usury.*—The insufficiency of measures for the checking of usury has led to measures of indirect action. These may be comprised in two categories: those concerning the organisation into credit co-operatives,[1] and those connected with the more general organisation of Agricultural Credit and its economic reinforcement.

These measures, wherever properly and adequately applied after serious study, have proved radical for healing the malady. It is, therefore, clear that attention should be mainly directed to these measures.

(d) *Auxiliary Measures.*—There is no doubt that, apart from the laws and positive measures against usury, and as a reinforcement to these at the same time, measures of procedure[2] and action by police authorities may be applied, especially with regard to usury not appearing under its purely monetary guise. Regulations governing the purchase and sale of agricultural products and implements, the controlling of the books of merchants and brokers dealing in certain articles (by obliging them to keep books with full particulars), the establishment of standard requirements for those engaged in certain trades, etc., may be regarded as auxiliary measures. Further, the agricultural associations may undertake to advance court expenses and, within the bounds of possibility, to facilitate by all means proceedings against usury activities, and so forth. Nevertheless, all these can only have an auxiliary importance.

[1] Cf. The Co-operative Organisation as a factor of canalisation of especially the Personal Credit to the Rural Country, p. 78, and The Real Estate Credit Co-operatives, p. 97.

[2] *Vide:* The Reform of Procedure Conditions in respect of Forcible Executions by order of the Court on Real Estate Property, p. 170.

CHAPTER IX

THE SYSTEMS OF ORGANISATION OF AGRICULTURAL CREDIT

A. General Remarks

(1) *Special Requirements of each Category of Agricultural Credit as regards its Inner Organisation.*

Summarising what has been said as regards the suitability of the various institutions for the transacting of credit relating to each one of the Agricultural Credit branches, we have to remark that for the credit of current exploitation the most suitable, directly or indirectly, are the Personal Credit Agricultural Co-operatives [1]; for the consolidated means of exploitation credit, these latter, but also more generally the institutions of Agricultural Credit for exploitation, the agricultural co-operatives of every description being utilised as intermediate channels for the transactions.[2] As regards Real Estate Agricultural Credit and Ameliorations Credit, the most suitable institutions for these are the mortgage institutions specialising in rural matters, and the agricultural co-operatives of real property credit.[3]

(2) *The Necessity of Examining and Facing as a whole the Problem of the Organisation of Agricultural Credit.*

The said institutions, however, represent as a rule only the cells, or isolated local organs of the whole of Agricultural Credit organisation, which cannot suitably act except within the general frame, and in conformity with the more general tendencies and lines of direction of that branch of Agricultural

[1] Cf. What are the Institutions carrying Current Exploitation Credit Transactions, p. 106.

[2] *Vide:* The Organisation of Consolidated Means Exploitation Credit, p. 112.

[3] *Vide:* The Contemporary Organisation of Real Estate Agricultural Credit, pp. 128 sqq.; and: The Contemporary Organisation of Ameliorations Credit, pp. 148 sqq.

Credit, the service of which is their main object. Besides, these four great branches of Agricultural Credit, although independent as regards special aims and needs, basically have a common mission, namely, the service of production and of the agricultural class; a common field of action, that of agricultural economy, and common, or at least related, and often interdependent, sources from which they secure the means they require. It is not, therefore, possible to examine the organisation of Agricultural Credit by isolated branches, but as a whole.

(3) *Shaping of the Agricultural Credit Organisation.*

The organisation of Agricultural Credit is governed by fixed principles. Some of them emanate from the general principles of economics and the art of banking, others, from principles and matters generally regulating agricultural economics. But this organisation cannot ignore the influence of agricultural surroundings and, as it concerns human affairs, the influence also of social surroundings within space and time.

So, we find various systems of Agricultural Credit organisation, which, in their general lines, may be summarised as the following: the co-operative system, the banking system proper and the *sui generis* public utility system. Regarding the latter, it would be advisable to divide this, in conformity with the degree and the form of the state or local authorities intervention in things which govern it, into: state, semi-state and under tutelage organisations where the public authority partakes more or less actively in their administration, and the absolutely autonomous credit organisation in respect of which the state (municipalities, etc.) are entitled only to control.

(4) *What are the Important Points of each Agricultural Credit Organisation?*

There are five substantial points specially interesting us and which we are obliged to examine and compare in the above-stated basical systems of organisation of Agricultural Credit: (*a*) the fundamental object aimed at by each system,

(*b*) the principles upon which it is founded, (*c*) the structure, the mechanism and the working of each, (*d*) the method and conditions of securing capital required by each system, and (*e*) the value and importance of each system as regards the efficient transacting of Agricultural Credit and, specifically, from the agriculturist's standpoint.

(5) *Conditions to be fulfilled by the Agricultural Credit Organisation.*

In order to consider the organisation of Agricultural Credit as satisfactory, it must be carried out in such a way as to allow, through its channel, the successful transaction of Agricultural Credit work. To this effect the organisation must respond to the following fundamental conditions: (*a*) it cannot basically aim at profit-making, but must seek to serve agriculture and the agricultural class; (*b*) its inner organisation should be delineated and as nearly as possible shaped on the pattern of a banking organisation, and should be characterised by perfection in its simplicity and economy, by keenness and flexibility, and, at the same time, by an unrelenting attachment to the principles and the fundamental lines of the organisation. It must also show perfect order, and be well informed and capable of an intensive economic and technical following up and guidance of those contracting the loans. The administration and the staff should not only be endowed with ability and honesty, but it is also indispensable that they should be inspired and guided by the sacred enthusiasm of their high mission, (*c*) the organisation should further be in a position to find abundant and cheap capital irrevocably secured for a fixed and amply sufficient period of time; (*d*) the loans should be granted on convenient terms, fully adapted to the object for which they are destined, and the canalisation of credit should be realised reaching right on to the agriculturist by means of a corresponding network for canalising and following up of the loans.

B. Comparative Remarks on the Various Systems of Organisation of Rural Credit

(1) *The Object basically aimed at.*

(a) *The Stimulus for the Transacting of Agricultural Credit.*—Out of the institutions transacting Agricultural Credit, some carry it as their main business, either because their object is not profit-making but public utility, or because they desire to avail themselves of certain privileges. Others are simply transacting such credit as a means of placing excess capital, either in view of the security this kind of placing represents in certain instances, or owing to possible privileges and special gains or advantages connected with the placing of capital in agricultural enterprises which makes these profitable in given instances, or, again, as fulfilling obligations undertaken towards the State or the local authorities, against benefits in exchange; or, finally, from a higher unselfish conception and a recognition of the exceptional importance for the general welfare of reinforcing the agriculture of a given country. This last conception, however, is the most rare, and it can only be realised at intervals, considering that it would be nonsensical to demand from institutions aiming at profit to push their unselfishness to the point of setting aside, over and above certain limits, the interests of their shareholders, whose interests are their sole or, at least, their principal preoccupation.

(b) *Comparing the Objects, the Economical Results and the Responsibilities.*—Out of the four categories of organisations [1] the credit co-operatives aim only at serving and furthering of the interests of the agricultural class, any profit-making in its proper sense being altogether excluded from them. They are content, as a rule, to cover their current expenses, and the comparatively small reserves created are again used to their common or to public utility ends. Any eventual losses by the co-operative are shouldered, in part or in whole, mainly by their members.[2]

[1] *Vide*: The Shaping of the Agricultural Credit Organisation, p. 178.

[2] Cf. in connection: (1) The Mutual Liability Personal Agricultural

The banking enterprises, usually under the form of a limited company, aim at securing as large profits as possible for their shareholders; they are not interested in the welfare of their clients except in such measure as these are directly interdependent upon the interests of the banks themselves, or, at least, as far as there is no clashing of interests. For this reason, and also on account of other factors, their accrued benefits are usually superior, without, however, their terms being always heavier. A considerable part of their profits is distributed to the shareholders, and the remainder goes to the reserve fund, and for similar purposes. As far as losses are concerned, these weigh only upon their own capital (limited).

Finally, the public utility credit institutions, whether of a State character or under the decisive influence on their administration of public organisations (State, local authorities, etc.), or of a fully autonomous character, have as their principal, if not unique mission, the reinforcement of agricultural production and of rural producers usually in quite a disinterested way. Therefore they aim, usually, to offer service rather for the general interests of the community than for securing of financial benefits. Any eventual losses are met from their reserve funds, but the State, or the public organisation, often shoulders part of the losses, it being more or less responsible for the said institutions.

(2) *The Principles on which each System is founded.*

The Agricultural Credit Co-operative Organisation is founded on the principle of self-help.[1] It aims, on the one side, at the creation, through the channel of savings, of reserve funds, to be utilised for meeting, at least to a certain degree, the needs in credit of agricultural production, and, on the other side, at increasing, through the means of mutual liability, of the economic superficies and

Credit, pp. 77 sqq.; (2) The "Raiffeisen" type co-operatives (which we have mainly in view in this present comparison as exceptionally representative of the Co-operative Organisation of Personal Credit in the rural districts), p. 80, and (3) The Real Estate Credit Co-operatives, pp. 97 sqq.

[1] *Vide:* aforestated points, in pp. 77 sqq., 80 sqq. and 97 sqq.

security of transactions for the purpose of securing the requisite supplementary means in as wide a scale and under the most favourable conditions possible.

The banking profit-making organisation is based on the principles of free exchange.

As regards the public utility agricultural credit organisation, this is founded on the advisability of the State's intervention and aid, also that of local authorities and, more generally, of public law organisations, in favour of a given branch of production as far as such intervention and aid are considered to be imposed by social justice, or may serve general interests.

(3) *Structure, Mechanism and Working of each System.*

As regards its structure, mechanism and working, the Rural Co-operative Organisation tends as far as is practicable to scientific development on the lines of banking,[1] but, in spite of all endeavours, reaches only in exceptional cases the organisation and orderliness of banking. On the other side, the good point of the agriculturists administering their problems themselves is not to be despised. The interest taken in the work and the enthusiasm in its favour are of the greatest value, while the knowledge of the surroundings and the supervision of the utilisation of any loan granted are equally excellent.[2] In addition, all can be done in the most economical way possible.

The Banking Organisation proper represents the antipodes of the co-operative organisation as regards its inner structure and mechanism, seeing that it is based on a salaried staff and on a mechanical rather than on a conscientious working. The supervision of the agriculturist and, generally, the bank's being fully posted as to his undertakings are not impossible, but in any case they prove very difficult and costly.

The Public Utility Organisation varies greatly in respect

[1] *Vide:* The "Raiffeisen" type Co-operatives, p. 80; also: The Real Estate Credit Co-operatives, pp. 97 sqq.

[2] Cf. The Agricultural Co-operative Organisation as a factor of canalising especially of Personal Credit into rural districts, p. 78.

of its structure and mechanism, in conformity with its shape, its tradition and the degree of intervention of public law organisations (State, local authorities, etc.) in its administration.

(a) *Consequences of the State Form and Intervention.*—Wherever the organisation of Agricultural Credit is, in substance, a State one, or the public authorities exercise a decisive influence, irrespective of the form and denomination under which the said organisation appears and the extent of its reinforcement by public organisations, its structure and mechanism more or less resemble the structure and mechanism of the public services, and the staff acquires the mentality of public service officials. A bureaucracy without system and order, with narrow conceptions and lack of initiative due to fear of responsibilities, recklessness, attachment to form and disregard of substance, form the main characteristics of the euphemistically live propellor of the unwieldy mechanism of this organisation.

(b) *The Consequences of Political Interference.*—As if the above did not suffice, another evil puts in an appearance: political interference. This is so much the more detrimental, as the factors, interfering with the work of the bank, are irresponsible and incompetent, because then the institution is continuously in a state of lost bearings and out of control. Nevertheless, even responsible interference is not without danger, on account of outside intervention affecting the self-direction of the organisation. The evil that may result therefrom is apparent. The results, however, of responsible interference become exceptionally disagreeable when the directing influences spring from factors both unacquainted with the continuity of policy and the situation prevailing, but also theoretically uneducated, or with only very confused notions as regards agricultural economics and, especially, Agricultural Credit. And this, it might be said, is unfortunately the rule, not the exception. Finally, even in the presence of specialisation and capability on the part of the politicians who responsibly and openly carry the State mandate on the Agricultural Credit organisation, the influence is ruinous whenever the parliamentary government

of a State does not hold an explicit mandate from the nation, enabling it successfully and continuously to counteract any and all pressure brought to bear upon it by its friends from the rural districts.

(c) *Successful State and semi-State Organisations.*—It is obvious that a similar state of things does not of necessity follow, and it is true that in many countries there have been and still are at work State Agricultural Credit institutions of public utility character having a satisfactory inner organisation and administration.

1. *The Exterior factors of their Existence.*—These are due to: (*a*) the fact that in these instances, although formally the State has the right of 'veto,' it rarely makes use of it; (*b*) that these organisations are isolated in the midst of others, the influence and competition of which they must encounter; (*c*) that State intervention usually concerns only the central institutions, under which a complete credit co-operative network is to be found, with principles and tradition and with very powerful administration boards. Under these conditions the State institution is unable to injure the dependent organisations, but, on the contrary, is influenced by the latter in a many-sided way as regards its inner organisation, and is pulled up in its credit policy, so that both the responsible State mandatories and the irresponsible political factors will, before taking any action, carefully survey the actual situation, knowing very well that anything contrary to the properly understood interests of the whole would have to face not simply a faint refusal on the part of a managing director or branch manager which might be easily neutralised, but the whole of the Agricultural Credit formation, backed, if need be, by the whole of the organised rural district; (*d*) that the agricultural surroundings in general do not anticipate a degeneration, but are continually keeping up, toning and directing in a proper manner the Agricultural Credit organisation of the country. This comes about mainly through the agricultural co-operative, and, especially, the professional organisations, whenever they are headed by enlightened, inspired and powerful boards of administration. These boards

follow up step by step the credit organisation of all degrees in the rural district, ready to hit hard not only against any transgression, but also any possible indifference and carelessness.

In any case, all these factors are exterior, and therefore there must be distinction and separation, so as not to attribute to the system of State banks a success due to factors altogether independent of it.

2. *Conditions under which the State Organisation could be in itself a practicable one.*—Finally, we are open to admit the possibility of the existence of a well-organised and well-working State, or semi-State, Agricultural Credit organisation. This, however, could only be possible where State machinery has reached the highest degree of perfection, and the organisation, the following up and the direction of the work of Agricultural Credit were entrusted to the best fitted and most inspired factors from every point of view, with a full consciousness of their responsibility and their mission. But it must be admitted that this is a very rare, if not indeed an altogether non-existent occurrence.

(d) *Structure, Mechanism and Working of the Autonomous Public Utility Organisations.*

1. *Advantages presented.*—The Autonomous Public Utility Agricultural Credit Organisations may—as far as their structure, mechanism and inner organisation are concerned—take an absolutely banking form. On the other hand, their administration and staffs may be conscious of their high mission and show themselves equal to it. They may have all the required width of conception, flexibility, leniency and enthusiasm, without necessarily overlooking the basic principles of the banking industry, adapted naturally to the needs of rural districts. Besides, the admission of representatives of the agricultural class to their administration keeps unimpaired the interest of the rural population as regards their protection and furtherance. State representation on the administration boards secures the confidence and supervision of the State (and other organisations of public law), and their unreserved assistance. The following up, however, of the agriculturist who contracts a loan and the

full knowledge of matters relating to him is not easy. It is also an expensive item in itself, as it demands a very wide and dense network of branch offices and agencies.

2. *The Weak Point.*—We do not deny that there are autonomous Agricultural Credit organisations with defective inner organisation and headed by arteriosclerotic boards, lacking in inspiration. We must also admit that, to a certain extent and not so rarely, this is due to the lack of any important personal material interest on the part of the members of such administrations. But it would not be permissible to make general deductions from isolated cases and to attribute this defectiveness always to the above reason. Besides, there are instances of ordinary banking enterprises inwardly very badly organised and still worse administered, although the management may be materially interested in a direct way.

(4) *Method and Conditions of finding the requisite Capital in conformity with the various Systems.*

The securing on the free market of the requisite abundant and cheap capital for transacting Agricultural Credit presupposes a sufficient profit for capital, and more favourable conditions for its disposal (time limits, possibility of revocation; etc.) for the capitalist, as well as absolute guarantees for him.[1] In principle, these conditions are only to a small extent realisable in agriculture.[2] Also they may only be in a comparative degree influenced by the system of organisation of Agricultural Credit.

(a) With the system of co-operative organisation, the credit co-operatives (of personal and real estate property) present more or less important advantages as regards the guaranteeing of capital owing to their mutual liability, but their contact with the money market only becomes easy when they are possessed of a complete hierarchic network of organisation from the bottom to the top. That they obtain capital by means of savings is a good point, but this works slowly, and presupposes an actual state of well-being among at least the greater part of the agricultural class.

[1] Cf. The Functions of Guarantees in Agricultural Credit, p. 57.
[2] *Vide:* The Specific Characteristics of Agricultural Credit, pp. 18 sqq.

(b) *The Banking System.*—Banking institutions aiming at profit easily get in touch with the money market, as well as the market of capital, but the small margin of profit derived out of the transacting of Agricultural Credit is not usually sufficient to attract capital, the more so for the guaranteeing of the loan here (with the exception of the instance of the issue of real property bonds and similar titles, when the mortgage active of the bank represents the main guarantee) solely by the economic resources of the institution is anything but attractive. Besides, private banks cannot rely on savings for securing capital destined for Agricultural Credit, for whilst they could not possibly manage to pay high interest rates, the psychological stimulus would be lacking and also contact with the agriculturist depositor, which is prominent in the co-operatives. In addition, the guarantee of mutual liability would be lacking. There remains then, as the only serious source, State aid. The State, however, and all public organisations generally disposing of capital for ends of public utility, refrain from utilising as intermediaries—for the purpose of canalising their aid to agriculture—any profit-making organisation. Because, however respectable they may be, there never will be altogether excluded the fear of exploitation of every description of those in whose favour the sacrifice has been effected by the State (or the local organisations). Therefore the banks do not excel even in this direction.

(c) *The Public Utility Organisation.*—As regards the securing of capital, the public utility organisation is in a comparatively better position. First, the disposal through its channel of the reinforcement coming to Agricultural Credit from the State, local authorities, etc., is absolutely imposed. And whatever may be the shape of this aid—whether an endowment to the Agricultural Credit institutions, or a form of grant, or of interest-free loans, or loans against a low rate of interest—it offers a solid basis for a starting-point. As regards savings, provided these deposits are guaranteed by the State or the local authorities, or any other appropriate means, the problem may be considered as solved to a certain extent, because

the public utility institutions can very well afford to pay to their depositors higher interest rates than those of other Agricultural Credit institutions, without the level of such rates exceeding the margin imposed by the very nature of an agricultural enterprise. This is so for two reasons: (1) because the public utility organisation does not enhance the interest rates with its own profits, and (2) because, thanks to State and other reinforcements, a low average cost of capital is attained. For these reasons the recourse of these institutions to the market of capital is substantially facilitated. Besides, apart from their own economic superficies—which, as long as they are possessed of sufficient capital and are properly administered, cannot but be important—the State guarantee is often forthcoming as an auxiliary for the eventual contraction of a loan, either directly or through the issue of bonds.

(5) *Efficiency of Agricultural Credit under the Various Systems—from the Agriculturist's Point of View.*

The satisfying of the needs of the agricultural class—forming as it does the objective aim of the Agricultural credit organisation—represents one of the most substantial criteria as regards the systems of organisation under examination.

(a) *The Great Advantages of the Co-operative System.*—As already pointed out, the organisation based on a co-operative foundation is the one coming most into contact with the agriculturist, the one in a position best to understand his actual needs and the most appropriate one for meeting these adequately, provided it has the material means required. At the same time, under this system the burden of general expenses is very slight.[1]

(b) *Unfitness of the Banking System.*—Distribution of credit under the auspices of ordinary banking for the transacting of Agricultural Credit assumes, as already seen, a formation of branch offices and agencies fully covering the rural districts. The expenditure this entails is, in most

[1] Cf. The Agricultural Co-operative Organisation as a regulating factor of the canalisation especially of personal credit to rural districts, p. 78.

instances, disproportionate to the services to be rendered by this formation, excepting when it may be utilised also to concentrate possible important deposits, and agriculture can never be as completely served as with the co-operative system. If, in addition to the method of canalisation, we take into consideration other factors, especially the necessity for the loans to be adapted to their objects—which rarely occurs—as well as banking narrow-mindedness—which, as a rule, prevails in the banking system—and which are of the greatest importance as far as transactions in Agricultural Credit are concerned, the unfitness of the banking system to render real service to the agriculturist becomes obvious.

(c) *The Public Utility Organisation.*—The public utility organisation—from the standpoint of adaptation of loans to the conditions of their utilisation, the cost of credits granted (interest rates) and of its credit policy in general—represents undoubtedly a perfect system, viewed from the point of service to the agriculturist. On the contrary, it proves to be practically the same as the banking system as regards the canalisation of credit, as far as this is done directly through the channel of numerous branch offices and agencies. The distribution of credit proves also in this instance very expensive, and never can manage fully to meet the needs of rural districts.

C. The Ideal System of Organisation of Agricultural Credit

(1) *Is there an absolutely perfect System?*

All the systems examined present in themselves advantages and disadvantages. An absolutely perfect system, therefore, does not exist. The surroundings, however, within which each one is being applied or going to be applied exercise a decisive influence as regards the increase or decrease of its advantages and disadvantages. Thus, in conformity with the conditions of land ownership and land cultivation, the mental level, psychology and living conditions of the rural population, and also of the more general surroundings, the choice should fall on the co-operative system or the public

utility banking system. The first is best adapted, as it is, wherever there is small property ownership and cultivation in a small way, and the second where there is large property and culture. As already seen, the particular branch of Agricultural Credit—defined in each instance by the specific object of the loans granted—has also a decisive influence on the choice of system.[1]

(2) *Exclusion of the Profit-making Banking System.*

Nevertheless, if none of the systems can be considered absolutely perfect, one among them may be emphatically considered as unsuitable without any doubt. This is the banking system proper aiming at profit. The matter has been tested and proved in practice, with very few exceptions.[2] There cannot be a question of transacting Agricultural Credit by such banks in a professional, matter-of-fact way, out of own funds or out of means obtained on the free money market. Agricultural Credit may be transacted by private banks under more or less bearable conditions, mainly in cases when the transaction is undertaken, following an agreement with the State, against serious material barter, whereupon these banks are subjected to State control and especially the methods of transaction of rural credit.

But it is not to be disputed that the results obtained rarely correspond to the privileges granted in exchange. Besides, even where there might be absolute good intentions for a *bona fide* fulfilment of the obligations undertaken, the unfitness of these institutions, inherent in their very nature and structure, remains unchallenged. Consequently it is generally more advisable to find other solutions and to dispose otherwise of the eventual sacrifices which the State might be open to undergo for the sake of the credit organisation of its agriculture.

(3) *Direct to the best System most fit for Generalisation.*

It results from the aforestated that the conditions of production and the existing surroundings—within which

[1] *Vide* : pp. 106, 112, 131 and 149.
[2] As, for instance, in Scotland, and, to a certain extent, especially in the past, in Poland

Agricultural Credit is to be transacted—lead to the preference being given to a fixed system to be applied. But, if the physical, social and economic surroundings vary, the conditions of agricultural production, since the middle of the eighteenth century and especially following the War, are tending to become almost uniformly shaped within the civilised world, especially in the old hemisphere. That is to say, small holdings and small culture are tending to prevail. And this shaping of the fundamental bases of agricultural economy, in conjunction with the measures which are being taken practically in all countries in favour of developing, educating, organising into co-operatives and aiding in every form producers in a small way, permits the defining of the frame within which the Agricultural Credit institutions—destined to serve such agricultural economy—ought to be placed and also their main features in common.

(4) *The Solution.*

Under the circumstances, theoretically and *prima facie,* it would appear that preference should be given to the co-operative organisation. But this organisation cannot immediately become general.[1] In most cases, the best solution can be presented only by the combination of the autonomous public utility system with that of the co-operative. The extensive and dense co-operative network would canalise the credit, and follow up the agriculturist (or eventually other credit institutions of every description), whilst the Agricultural Credit institutions bearing a public utility character, and possessed of a perfect banking organisation, very limited in number and depleted in networks of branches, would have the mission of securing and distributing the credit by districts and by unions of credit co-operatives, the leading and directing of their activities, and their control on general lines. But there arise the following basical questions: (*a*) Is the exclusive organisation of Agricultural Credit "from the bottom upwards" to be excluded? (*b*) Where the credit co-operative network

[1] *Vide:* below.

is not able alone, through the channel of its unions and organisations of a higher degree, to handle the whole problem of transacting Agricultural Credit, what is the solution? (*c*) What is the form of the public utility credit network, and its hierarchical place and classification? (*d*) What is the most preferable composition, inner regulation, administration and control of the public utility credit system?

(a) *The Organisation "from the bottom."*—For a long time the advisability has been pointed out and insisted upon for a full organisation of Agricultural Credit "from the bottom," viz., through the completion of the network of co-operative unions and the creation of one or more co-operative institutions of a higher degree—one for each category of credit co-operatives—which would serve as central co-operative banks. And, to a certain extent, things have been shaped in this way in certain countries.[1] But the realisation of this complete credit organisation "from the bottom" does not prove practicable everywhere, since it requires a corresponding co-operative education, a suitable field of action for this and, generally, adequate surroundings. Thus, without ceasing to be the ideal solution, at least theoretically, in most instances its immediate realisation is not yet practicable.

(b) *The Organisation of an Overhead Formation.*—Under the circumstances, another solution must be found if only as a temporary *modus vivendi* which would, for the time being, regulate the situation, and which would not only not obstruct but, on the contrary, would facilitate the evolution of things in the direction of the co-operative solution. This can be absolutely attained through the constitution of an overhead public utility credit system. For the creation of the latter, the State should take upon itself both the necessary initiative and also the greater part of the burdens.

(c) *Its Forms.*—The organisation may be possessed, in some cases, of a decentralised, and in others of a centralised

[1] As, for example, in Germany with the General Union of German Co-operative Societies "*Raiffeisen*," established in Berlin, and the "Union Suisse des Caisses de Crédit Mutuel," established in Bechelsee and having their head office in St. Gall (Switzerland), etc.

form, viz., it may be formed of independent institutions, or groups, headed by their central institutions, or of a single, central establishment with its branches at the proper points, which latter would keep in touch with the co-operative unions. The first solution has been imposed by reasons of an historical or of a local nature.[1] Nevertheless, as a rule, the connecting of the various separate formations between themselves and with the market of capital, through the medium of a "general" central institution, is imperative. As an ultimate result, in substance some kind of a centralisation is being realised, irrespective of its more or less lukewarm character and form. The second solution, *i.e.* the centralising one, is more in agreement with the newer tendencies as regards the *organisation of Agricultural Credit*, and it has prevailed at least in all countries where organisation has been developed from the beginning.

1. *The Multiple Decentralisation System.*—The Decentralisation System is marked by all the advantages and disadvantages of decentralisation. The district organisations having a proper knowledge of things and needs of their respective districts, and full liberty of movement—inasmuch as they are independent—can offer themselves for the satisfaction of such needs with all the flexibility required and with a conscious zeal. In reality, however, there cannot be in any country a uniform Agricultural Credit policy, notwithstanding eventual intensive and continuous efforts to this end on the part of the Central Capital Granting Institution. The degree of influence of the latter on the local and varying organisations is corresponding to the extent of the reinforcement afforded. That is to say, in cases of an eventual self-sufficiency of a given organisation, the influence of the central credit institution may become quite shadowy. The contrary occurs in the case of scarcity of means of any given organisation the satisfaction of the district needs of which depends much more upon the measure of its reinforcement by the central institution than from the meeting of such needs in a direct way from the money market. Be it as it may, even in this system the services that may be rendered

[1] Germany.

by the general central institution not only as regards financing, but also in respect of regulating, directing and curbing the credit policy of rural districts cannot be overlooked. This has been proved in practice, for even states with a perfect credit organisation in their rural districts, arranged by credit branches and districts of the country with wonderful formations fully and hierarchically organised, headed by their central establishments, and which over a long series of years have worked successfully in close contact with both the money and even the capital market, have, nevertheless, judged it imperative to create also a general central institution.[1]

2. *The Centralisation System.*—It is true that the centralisation system shows a comparative lack of flexibility, also a difficulty of adaptation to the needs of particular districts, and, generally, all the disadvantages unavoidable in a huge administrative mechanism. On the other hand, it is possessed of all the advantages resulting from the economic principle of "centralisation." The securing of requisite capital proves easier through its channel, and realisable under more favourable terms, whilst the effective application in rural districts of a really decided uniform credit policy not only is not affected by the aforestated difficulties,[2] but on the contrary takes place under the best conditions.

3. *The Central Institution.*

(*a*) *Influence of the Central Institution on Agriculture.*—The influence of the central institution on the agriculture of a given country cannot be anything but decisive. This point deserves special attention, because Agricultural Credit, properly handled, becomes the most effective weapon in the endeavour to apply any agrarian policy. In a centralised organisation, therefore, with a series of simple branch offices, it is only natural that the central institution actually regulates the whole work of production in rural districts,

[1] This has happened even in Germany, which country, although possessing model formations of Agricultural Credit institutions, has also established by the Reich's Law of 18th July, 1925, a general central institution of Agricultural Credit, namely, the "Deutsche Rentenbank Kreditanstalt."

[2] *Vide supra*: The Multiple Decentralisation System, p. 193.

and reconstructs the whole apparatus of future agricultural economy. This fully justifies the interest displayed by the State in the organisation of Agricultural Credit, and the credit policy applied. It also, however, creates a pretext for untimely, and at times disastrous, interventions by the State.

(*b*) *Advisability of Concentrating such a Power in a Single Institution.*—The question arises: Is there not a danger in concentrating so much power in the hands of one single institution? The answer cannot be categorical, because everything depends upon the way it will make use of its power, and this greatly depends upon the composition of its administration. If the administration of the central, actually autonomous, institution of Agricultural Credit is such as to guarantee the permanent application of a studied scientific Agricultural Credit policy, centralisation may be instrumental of very great good, irrespective of its already mentioned disadvantages. The State, on account of very frequent changes of governments and of persons, is rarely in a position to secure by itself alone the requisite continuity and permanency which are indispensable for a successful application of an agricultural programme. The contribution, therefore, of the central Agricultural Credit institution should be considered absolutely necessary for the realisation of such programme.

(*c*) *Composition of the Administration and Control of the Central Institution.*—In order that the administration of the central institution may be adequate for the undertaking of this heavy work, it must partake of the following factors: (1) the State must be represented by technical officials of high rank well versed in matters of agricultural economics; (2) there must be representatives of economic organisations of the agricultural class (agricultural co-operatives and local credit institutions) and also representatives of professional organisations (Agricultural Boards, Chambers of Agriculture, etc.); (3) one or two representatives in all of banks of issue and/or mortgage banks with a certain public utility character, and (4) science must be represented by those most suited for the purpose (rural economist,

economist, agriculturist and lawyer). The above are merely indications. In any case the percentage of State participation in the administration should not exceed one-third of the whole, and the representation of the agriculturists' class should be at least equal to that of the State. The retirement of members of the boards should be effected partially and at sufficiently long intervals (every three years for instance), and the persons replacing the outgoing members should invariably be taken from exactly the same classes. The boards should concentrate in their hands all the power.

As regards control, it would be advisable to vest this in a permanent commission (composed, say, of three members) with partial renewal every two years. These should comprise a representative of the highest court authority, one from the Ministry of Finance and a banking official from one of the aforestated Institutions.

Such a composition of the administration board and the control commission cannot but inspire the fullest confidence in both State and agricultural class, and carry weight on the local and foreign market of capital.[1]

4. *Neutralisation of the Disadvantages of the Centralisation System. Decentralisation.*—Disadvantages of the centralisation system, due to its very nature, could be neutralised in great part, provided there were granted to local branches a considerable initiative, a kind of self-government, by constituting local boards, corresponding as regards their composition to those of the central institution. In this instance the central institution would limit itself to the lines of general direction of the credit policy of each branch—without ignoring any suggestions on the part of the latter as far as these are not contrary to the general programme—to supplying the branches with the material means required, and to diligent following up of their activities.

[1] We deemed it advisable somewhat to enlarge upon particulars concerning the administration and the control of the central institution. We have done so on account of the fact that we have noticed that so many ill successes are due to inadequate composition of the boards and unsuitable methods of control. Our conceptions set forth as above are, *mutatis mutandis*, applicable also to other public utility Agricultural Credit institutions and formations.

Adaptation to the prevailing local conditions would then prove easily realisable.

(d) *The position of the Overhead Organisation after completion of the Co-operative Credit Organisation.*—We have in principle already admitted the superimposed overhead organisation as a transitory measure leading to the fuller organisation of the co-operative formation underneath, and the evolution, by degrees, of the latter up to the level of a central co-operative bank.[1] But what is to happen to the overhead formation when the Agricultural Credit co-operatives may have become fully ripe for administering Agricultural Credit as a whole? A calm, objective study, free from any pathological ideology, both of co-operative and of agricultural credit matters persuades us that we are not as yet nearing the time for the overhead organisation, or at least its central institution, to become obsolete in most countries. In any case it is worth while facing the problem.

Without being pessimistic, we believe that as regards credit self-sufficiency for the agriculturists' class, it never will be possible seriously to speak of dispensing for agriculture of credits granted through the channel of public utility central institutions, for the purpose of diverting these credits and utilising them for other objects. The contrary would rather be the case. We must, therefore, examine in what way, after the completion of the co-operative credit organisation, the administration of the existing credits of the overhead public utility organisations could be realised. There are three possible solutions :—(1) dissolution of these institutions and absorption of their credits by the co-operative organisation; (2) amalgamation of both overhead public utility and credit co-operative oganisations, and (3) limiting of the public utility overhead organisation to its central institution, and to the work of financing the co-operative banks, the latter consecrating themselves to the work of transacting Agricultural Credit proper.

The first of the above solutions appears, at first sight, inacceptable, as being, at least apparently, unprofitable for

[1] *Vide:* The Organisation of an Overhead Formation, p. 192.

the State. The second and third are absolutely realisable, and in substance differ but slightly one from other and even from the first.

For the immediate organisation, therefore, of a public utility Agricultural Credit network over the head of the co-operative network, no serious obstacles, scientific or practical, exist, but such an organisation is obviously indicated.

D. Some Supplementary Remarks

(1) *The Combination of the Transacting of two or more Branches of Agricultural Credit.*

In summarising the problem of the possibility of combining the transacting of two or more branches of Agricultural Credit, we reach the conclusion that in the general central institution of Agricultural Credit all four great branches of Agricultural Credit should meet; namely, Current Exploitation Credit, Consolidated Means of Exploitation Credit, Ameliorations Credit and Real Estate Credit.[1]

In the more particular central institutions (*i.e.* third and second degree organisations of each category, for example, of "Raiffeisen" or "Landschaften" type) there is, and must be, specialisation. In the ultimate parts, however, of the formations, which are found to be in direct touch with the agriculturist, the concurrent carrying of two or more branches is permitted, under certain restrictions—where local conditions allow this course to be adopted—in order to avoid the infinite, very often unwarranted, multiplication of credit institutions, and also for the sake of economy. That is to say, credit co-operatives of personal credit are allowed to transact concurrently also credit of consolidated means of exploitation against pledges. In altogether exceptional cases, they could be allowed to carry also mortgage credit. Likewise the real estate credit

[1] This is not a new idea, it was put forward by Rodbertus since 1869. With the difference only that, at the time, he could speak of only about two branches: that of Real Property and of Personal Credit. Rodbertus was also among the first to urge the necessity of creating a central institution of Agricultural Credit irrespective of the fact of how he understood the same.

co-operatives (of the "Landschaften" type) are permitted concurrently to transact the exploitation credit proper. But, in principle, such a course, viz., the concurrent transacting of the personal and of the mortgage credit by the same institution, should be avoided. Especially, the transacting of mortgage credit by institutions, and specifically by co-operatives, of personal credit—as already stated—is almost excluded.[1]

(2) *Service of the Credit Needs of Agriculture by one and the same Credit Institution concurrently with those of other Productive Branches.*

From the items exposed, it follows now, in a general and definite way, that the credit requirements of agricultural economy cannot be combined with those operating with regard to trade, industry and shipping. We do not fail, consequently, in these recapitulating and synthetic remarks, to emphasise what we have already sufficiently proved, that is that the combination of their credit transactions is, as a rule, excluded. It is true that in former times, and even at present in certain countries,[2] there exist examples of similar successful combinations. But these are exceptions entirely due to local reasons.[3]

The only practical accommodation is the one between the mortgage agricultural and urban credit. But even in this occurrence the separate organisation of agricultural mortgage credit within the walls of the same mortgage institution is imposed.

(3) *Additional, Auxiliary and Non-Systematic Influx of Capital into Rural Districts.*

(*a*) As seen, apart from specialised credit institutions of Agricultural Credit, this is sometimes undertaken, in a more or

[1] *Vide* also: pp. 106 sqq., 112, 131 sqq. and 149 sqq.

[2] Scotland.

[3] In Scotland this combination proved of great utility, having contributed to the passing of the country, without great perturbations and crises, from the simple form of agricultural economy to the many-sided and complex one of agricultural trade plus industrial economy. This was entirely due to the wisdom of the policy of its banks, which had taken into their hands the reins of the whole economic life of the country.

less non-systematised way, by ordinary banks, concurrently with other banking operations. Savings banks, insurance companies, philanthropic institutions of every description, private persons, and finally the State, may, for various reasons, under the guise of placing of available capital, undertake such transactions. We do not intend here to dwell on the conditions under which this symptomatic and non-systematised transacting of Agricultural Credit is carried. We desire only to deal, in principle, with the question of this additional reinforcement of agriculture.

(*b*) It would not be right to pass over the importance of this additional, auxiliary influx of capital into rural districts under the form of its direct or indirect placing by institutions or persons of every description. But it would be advisable that such placings be indirectly effected through the medium of institutions transacting Agricultural Credit in a systematic way, by purchasing, for instance, bonds and other titles issued by Agricultural Credit institutions, or by depositing their disposable capital with such institutions, so that these placings may correspond to the requirements of agricultural economics, and present a fuller guarantee for the capital.

CHAPTER X

THE POLICY OF AGRICULTURAL CREDIT INSTITUTIONS

A. THE POLICY OF SECURING CAPITAL: SOME RECAPITULATING AND SUPPLEMENTARY REMARKS

FROM the foregoing [1] it may be seen that agricultural credit organisations have at their disposal three main sources for securing the requisite means for transacting credit in rural districts, viz. : (*a*) self-help, (*b*) the State and other organisations, usually of public law, and (*c*) the market of capital. In addition, two more sources may be mentioned: (*d*) profits accruing to the Agricultural Credit Institutions, (*e*) eventual special taxation in favour of Agricultural Credit. The practical value of each of these sources does not depend solely upon the Agricultural Credit branch, to which the capital is destined,[2] upon the form of the institution or the Agricultural Credit formation seeking to secure capital,[3] or upon the nature of guarantees offered,[4] but also upon special conditions in accordance with place and time. At any rate, the mutual liability and the savings of the agricultural class represent, as a rule, the first basis, State aid following upon these. Their existence greatly facilitates the possibility of utilising the free market of capital.[5] For the purpose of increasing its disposable capital, Agricultural Credit cannot

[1] *Vide*: How Capital required for Current Exploitation Credit is being secured, pp. 101 and 107; also: How could the Difficulties be Faced and a Sufficiency of Consolidated Means Exploitation Credit be attained? pp. 112 and 113; also: The facing of Insufficiency, etc., and the Sources of Real Estate Agricultural Credit, pp. 125 sqq.; and, finally: How Sufficiency could be attained for covering the needs in Ameliorations Credit, pp. 144 and 151 sqq.

[2] Cf. aforestated points in note 1.

[3] The method and the terms of securing capital in conformity with the various systems (in the preceding chapter), pp. 186 sqq.

[4] *Vide*: The Guarantees in Agricultural Credit, pp. 57 sqq.; also: The Categories of Agricultural Credit in conformity with the Guarantees, pp. 75 sqq.

[5] Cf. Mode and Terms of Securing Capital in conformity with the various Systems, pp. 186 sqq.

rely, to any substantial degree, on its profits. And still less may it do so as regards a special income from taxation fixed in its favour by the State, unless radical changes were forthcoming in the prevailing conceptions on this point. Besides, this last source may be considered as an expression of state aid and reinforcement.

(1) *Self-Help.*

The first concern, therefore, for the Agricultural Credit organisation—if it is not in the form of a co-operative—should be directed to the organisation of a network of credit co-operatives, and to encourage the creation of reserves through co-operative savings.[1]

(2) *State Aid.*

The public utility character of Agricultural Credit has been sufficiently emphasised[2] and from the preceding it is clearly shown that, without material reinforcement from the State and public organisations generally, there cannot be question of, at least, a general sufficient satisfying of the needs of Agricultural Credit. The Agricultural Credit institutions, therefore, should regard the State as a regular source from which to draw the many-sided aid they require, as from their natural protector.

(a) *The Arguments for and against State Intervention.*—In past as well as in modern times, many students of the question contend that the according of State aid to Agricultural Credit is out of place.

Among others, Colson, for instance, distinctly states: " Nous ne sommes nullément convaincus qu'il y ait un intérêt social réel à développer artificiellement l'usage du Crédit." [3] And, elsewhere: " L'emploi des fonds fournis par l'État a déjà donné lieu à beaucoup d'abus. L'expérience ne permet guère de douter que, s'il répondait à des besoins sérieux, les cultivateurs, les marins et les petits commerçants solvables trouveraient le Crédit nécessaire sans que la puissance publique ait à intervenir." [4]

[1] *Vide* also: Savings, p. 34.
[2] *Vide*: pp. 21 sqq.
[3] *Vide*: Colson, *Cours*, IV, p. 113.
[4] *Ibidem*, p. 112.

State intervention has been criticised also as being partial towards the agricultural class, and contrary to social equity. We certainly do not deny the abuses mentioned by Colson. On the contrary, we accord them exceptional importance, mainly owing to their detrimental influence upon the mentality of the rural classes, and the influence of the latter upon social economy as a whole. But the abuses in question could be limited to a point rendering them practically non-dangerous, whilst the arguments in favour of State interference [1] remain unchallenged. It would, therefore, be unreasonable to consider these abuses as a sufficient reason for declaring ourselves against State aid for Agricultural Credit. As regards the point of partiality on the State's side in favour of one productive branch over another, these remarks would have weight if there really were any partiality displayed even on philanthropic grounds.

The strengthening of Agricultural Credit is demanded by general interests of the utmost importance. If, now, it happens that through them the interests of the agricultural class are also best served, this does not constitute a plausible reason for condemning State interference. But were the strengthening of the agricultural class even a case of premeditated partiality—as some would like to have it—we think there is no object whatever in scrutinising the intention, once the strengthening of production as a whole is attained and a general feeling of comfort is created in the country, as the strengthening serves as a tonic even for production factors which seem to be altogether unconnected.

All must be alive to the devastation caused to the whole of social economy by the scarcity of capital in rural districts. Every moment lost even in the remotest parts of a country in connection with insufficiently exploited physical and labour powers, owing to the lack of adequate and cheap capital, has its corresponding effect not only on trade, industry, small industry and the means of transportation, but in a more indirect way also on all productive factors without exception, and, equally, on city banks in the same urban centres by reducing their business turnover.

[1] *Vide*: pp. 21 sqq., etc.

To summarise, it creates a handicap for the whole of production, a reduction of circulating goods, and especially of financial means, a general uneasiness, increase of distress, while the phantom of social anomalies makes a very lively appearance, seeing that these anomalies are interdependent and interwoven with the social conditions and the work of production.

Happily, those opposing State interference are left in a minority, and their number continually decreases. On the other hand, those still fighting against the idea are doing so either out of dogmatism or out of misapprehension, or basing themselves on isolated cases of prejudicial interferences from which it is highly unsafe to draw conclusions.

(b) *The necessity of State intervention.*—Under the conditions described above, any lack of State interest in the organisation and sufficiency of Agricultural Credit should be regarded as a criminal indifference of extensive portent towards the most vital interests of the country.

(c) *The forms of State aid.*—Anyone examining the organisation of Agricultural Credit in various countries, the measure of the many State facilities and strengthening of such credit, is filled with amazement. The care taken by the State may consist as much in an active part and lead in the organising and conducting of Agricultural Credit, and specifically of its central institution—as happens more extensively every day—as in facilitating the finding of ample and cheap means, which are not seldom granted by the State itself. State action may be direct or indirect; it may concern some special branches of Agricultural Credit or all of these, or even its central organisation alone.

As to the means for material aid to agriculture, these may be accorded: (*a*) directly by the State through the medium of its organs, (*b*) through the channel of special organisations established by the State (public utility organisations of public law) and (*c*) through private organisations of a co-operative nature or otherwise, even of those aiming at profit.

1. *The Direct Aid of the State* is usually accorded by endowing the central, or other establishments of Agricultural Credit, irrespective as to whether they are State, semi-State or even

private institutions under the form of co-operative organisations of higher degree, or of a limited company.

The State either makes a certain money gift to the institution (where it is a State one), or grants it as a loan, interest free, or at a low rate of interest, and the institution is obliged to grant loans at a low rate of interest to the agriculturists and their co-operatives, to meet their needs. But this direct aid may be accorded—through the channel of the said institutions—in another way, by granting to the borrower part of the amount lent at a low rate of interest, thus substantially reducing the interest on the whole of the loan. State agricultural loans are also directly granted through the channel of the local State organisations. To this category belong the land ameliorations loans and also the special loans for supplying consolidated means of exploitation (live-stock and ordinary stock), which have been adapted in many countries. In certain instances, wherever colonisation is the object, land is even granted by the State, with repayment to be made on a long-term basis and by debt-sinking.

2. As regards *Indirect State Aid*, this has as its object the facilitation of the influx of capital into the Agricultural Credit institutions, and through them on to the land, as well as the reduction of expenses of management of these institutions so as to render practicable the reduction of the rates of interest below those prevailing on the market.

This assistance consists in fiscal exemptions or reductions and certain privileges, among which are the legal enforcement of all legacies and bequests of common law institutions, associations, orphanages, etc., to be deposited with the said establishments.

Further, in most instances, measures have been decreed for guaranteeing, or at least substantially diminishing the risk of losses, to the Agricultural Credit establishment due to the incapacity of their debtors to fulfil their obligations, or even to bad faith on their part.

And, in a more general way, it often becomes necessary to adapt the legislation to the requirements of Agricultural Credit.

Among the forms of indirect aid the State Guarantee must be especially emphasised.[1] This, properly utilised, may procure for the Agricultural Credit institution abundant capital, under the most favourable terms, both from the money market and market of capital and out of savings.

(d) *The Money Market and the State Guarantee*.—The State is, as a rule, desirous, by means of its moral support, to remove the existing inequality on the money and capital markets between agriculture and the other branches of production.[2]

This moral support, however, cannot be without material consequences. The State must not, therefore, be asked to undertake obligations which, at a given moment, might shake it economically. Such a thing might occur if the State were asked to grant a general unlimited and unreserved guarantee to cover all obligations to be undertaken by all and sundry Agricultural Credit institutions. The State guarantee, first and foremost, can only be granted to formations, or to institutions of Agricultural Credit, the administration of which inspires every confidence. Then it must concern only well-defined objects, and its extent must not be unlimited. Among its first objects, the State guarantee should cover deposits. In such an instance, if the policy of the Agricultural Credit institutions as regards deposits—consisting mainly in the successful handling of the rates of interest problem—is the proper one, then their influx and their utilisation in agriculture must be very important. Secondly, the State may also guarantee the issue of bills, bonds, and other similar titles—by Agricultural Credit institutions of repute—provided that the total amount be known in advance in each instance. And, finally, the granting of the State guarantee is desirable and practicable in connection with the contraction of liquid loans in the money or capital market by credit institutions of rural districts that inspire full confidence as regards their administration and working.

The State would thus know in advance the limits and the

[1] *Vide*: p. 74.

[2] Cf. *supra* and also: The Public Utility Character of Agricultural Credit, pp. 21 sqq.; also: The Relations between Agricultural Credit and the Market of Capital, pp. 35 sqq.

extent of the risks it may run, because the respective sums would be absolutely defined, or could be pre-valued (with the exception of deposits), and would have in its hands the control elements regarding the institutions in favour of which its guarantee is granted.

In the case of powerful Agricultural Credit institutions, with a past that guarantees their future working, State aid is certainly only rarely necessary for their contact with the money market, or that of capital. But, as a rule, it is always useful, and in no case superfluous.

Especially for the securing of Capital through the issue of bonds, we must again emphasise here, that the various institutions must bear in mind that the more uniform the bonds and similar titles and the more uniform their terms and conditions on the market, the easier is their placing; and competition, always adversely influencing their disposal, is not only greatly avoided, but the securing of the State guarantee in their favour is correspondingly facilitated.

B. The Basic Directive Line of the Agricultural Credit Institutions

For any ordinary banking institution, the criterion of its being well administered lies mainly in the regular and continuous realisation of big profits. But this criterion does not hold good in the transacting of Agricultural Credit, which should be principally inspired by its public utility mission. The concern of the Agricultural Credit institution should be the welfare of the agriculturists dealing with it. That is why it suffices for such an institution, as a rule, to avoid losses from its activities, to keep within defined bounds of the liquidity of its non-long-term credit, to encash regularly the debt-sinking instalments, and to gradually create certain reserves for the covering of any future losses and the increase of its disposable capital in a way permitting it also in the future to be in a position to respond to the ever-increasing credit needs of the agricultural class.

We may go further. In many instances, when the increase of the means of the institution, in proportion to the increased

credit requirements of agriculture—of the special district and the special branch of Agricultural Credit it aims at serving —is absolutely secured from other sources (taxation, grants, endowments, etc.), and the conditions of agricultural production and of the average regular life of the agriculturist do not leave a sufficient margin for the convenient meeting of the standing interest rates, then the creation of reserves over and above those absolutely necessary for the covering of eventual future losses should be considered as an actual crime.

C. The Policy concerning the Borrower

(1) *General and Recapitulating Remarks.*

To attain the best results in the transacting of Agricultural Credit, the respective credit organisation should, in anticipation and according to programme, distribute the means at its disposal among the manifold objects aimed at in agricultural economy and between the various districts, in conformity with the existing needs and in accordance with the agrarian programme—of the country, in so far as the central or national institution is concerned, or of the district, in the case of a district institution or a branch office—and to adapt the amounts, the methods of granting, the seasons of granting and of calling in of loans, the time-limits, etc., to the specific object aimed at in each instance.

In Agriculture, much more than in any other branch of production, satisfactory results may only be expected when the form, the contents and the terms of the granting of a loan represent a "connexion" of the object for which the loan is going to be utilised.

It is, therefore, imperative for the said object to be clearly defined in advance and specified, so as to allow for settling up to the smallest detail of the conditions and other elements of the loan. In this way is also rendered possible the best management and sparing of the available means, a matter of so much greater importance, as the financial means are less connected with the existing needs.

Loans for covering the general economy needs of the

agriculturist [1] cannot certainly be abolished altogether, but they must be limited to the minimum.

(2) *The Amount of Loans.*

The amount of loans is defined by the actual needs existing. It does not prove difficult to ascertain these, provided the organisation of Agricultural Credit fulfils the conditions already laid down.[2]

The unstudied granting of loans in excess of real needs, on the one part represents an aimless dispersing of the disposable capital, and on the other it encourages unjustifiable indebtedness of the agriculturist and leads him to non-productive spending, or at least to an unconsidered utilisation of sums exceeding his actual needs. On the other hand, in most instances, the granting of a loan less than the one actually required results in very irksome consequences for the borrower, on account of its insufficiency for the realisation of the object for which it has been demanded. Not seldom, the shortage leads to works being left unfinished and the whole rendering from the loan may be considerably reduced, or half-finished works of improvement, for example, may get destroyed and the total sum of the loan be lost to the borrowing agriculturist, perhaps even to his creditor. The credit institutions, therefore, are under obligation to endeavour to ascertain, as nearly as practicable, the amounts actually required, and on this basis to regulate the amounts of loans to be granted.

Should their means prove insufficient to satisfy the existing needs, a general unstudied proportional reduction in the respective amounts of loans is not allowed, but it should be carefully examined which among them could be reduced, and up to what percentage, without creating from this reduction a situation detrimental to the private economy of the agriculturist and to the whole of production. It should also be considered what loans should be granted first. The

[1] Viz., those destined for reinforcing his enterprise as a whole, without bearing a specific object.

[2] *Vide:* The Co-operative Organisation as a factor for the Canalising etc., p. 78; also: The Ideal System of Organisation of Agricultural Credit, pp. 189 sqq.

usual "bargaining" round the amounts of loans to be granted cannot, and should not, find a place in the transacting of Agricultural Credit.

(3) *The Conditions of Granting of Loans.*

(a) *Time-Limits.*

1. *How should they be regulated.*—Considering their importance, and consequences for the economic standing of an agriculturist, it is rare to find sufficient emphasis laid upon the non-suitability of a loan from the point of view of time-limits.

There are two courses of a faulty credit policy in respect of long-term loans, each diametrically opposed but equally to be condemned, which appear at all times as far as the duration of the loans is concerned. Sometimes the time-limit for the reduction of the debt is insufficient for its repayment out of the returns of the estate—after deduction of the living costs of the agriculturist and the repayment of any of his pre-existing obligations—and, moreover, out of the works for which the loan has been sought. In other cases, again, the sinking of the debt is apportioned to a greater number of years than are necessary, thus leaving in abeyance a considerable part of the debt, whilst the results arising from the utilisation of this loan have long ago ceased to be active. And the matter becomes still more dangerous when there is no provision for repayment on a debt-sinking by instalments basis.

The above, as well as many other instances of badly calculating the basis of the agricultural loan, or of complete lack of considering and weighing it, are very frequent, wherever Agricultural Credit is not carried out by specialised organisations and organisations of public utility. They are, however, unpardonable when met with in the credit activities of co-operatives or of public utility specialised Agricultural Credit organisations. The latter should invariably specify the due dates for the repayment of the loans and the payment of instalments, on the basis of the yield of the loans, first and foremost. Repayment of a loan may not be demanded before the realisation of its object, as well as

payment of debt-sinking instalments, or yearly instalments, over and above its actual yield.

2. *Extension of Time and Renewal of Loans.*—Is the extension of due dates for the repayment of agricultural loans, and in some instances the renewal of these loans, to be considered as advisable? Scientists of renown, and also experienced bankers, reply in the affirmative, whilst others of not lesser standing are decidedly opposed to it. Others recommend the avoidance of extension, and much more of renewal, but are in favour of a grant to the agriculturist by the credit institution of a second loan, immediately following upon the repayment of the first, provided the institution is satisfied as to the necessity of such a grant.

The opinions of the first of these arise from the influence of a narrow banking conception, and is justified by arguments from the transacting of trade and industrial credit and from the necessity of educating the agriculturist in the fulfilment of his obligations.

The second among them point out, and absolutely rightly so, that the specific nature of agriculture does not allow for the application to Agricultural Credit of principles sanctioned in other credit branches, and they remark that, very often, the agriculturist, in spite of good intentions and all possible efforts, finds himself unable to fulfil his loan obligations, either on account of bad harvest, of crops destroyed by weather conditions, and other factors independent of his own will, or in view of fall in prices and lack of demand for his products. It is not, therefore, either right or advisable, just at such critical periods, to refuse to him facilities, and even new reinforcements, which would save him from economic ruin and would afford him the possibility of executing his obligations in the future. And, as it is not an easy matter to ascertain in each instance the actual necessity for an extension, or for a renewal, the respective demands of the agriculturist should always be examined with all permissible leniency on the part of the credit institutions. Besides, the latter contend that the agriculturist's education is much better pursued along another path, and that, at any rate, his material reinforcement must be considered first and foremost.

The third, finally, justify their conception by contending that through the enforcing of the repayment of the first loan the education of the agriculturist is attained, whilst the second loan granted to him serves for his reinforcing.

What are the proper tactics? Above all, we must not forget that Agricultural Credit bears a public utility character, and that it aims at affording a real reinforcement and proper service for both agricultural production and the agricultural class.[1] The application, therefore, of unrelenting and rigid principles, the same as those applied in respect of most of the other credit branches, is excluded.[2] On the other hand, the organisation and proper working of credit institutions of any description cannot be attained without sticking to certain principles. Disorder and misuses would be otherwise unavoidable, credit would cease to fulfil its proper mission, viz., that of a useful influence upon the work of production, and the evaporisation of the capital of the institution would also prove fatally unavoidable.

Lastly, we cannot dispute that the transacting of Agricultural Credit presents a very suitable opportunity and the best medium for the economic education of the agricultural class. Nor are we justified in passing by its significance. This being so, we conclude by saying that a close supervision of relative matters and a careful examination of each separate instance are primarily imposed. No general measure of leniency to cover all instances can be permitted. Wherever there is proved good faith, conservatism and wise carefulness, leniency, and even a new reinforcing, should be unreservedly accorded. Wherever, again, the good faith exists; but there is not sufficient administrative ability, there leniency is also imposed, but accompanied by an intensive supervision and guidance. In the instances, finally, where even a trace of bad faith, inexcusable indifference or neglect appears, severity is necessary as much for reasons of prudence as for educating the agriculturist concerned and setting an example to others.

Specifically, as to the tactics of enforcing timely execution of loan obligations—even when the credit institution

[1] *Vide*: pp. 21 sqq. etc., and, particularly: pp. 21, 203 and 207.
[2] *Vide* also: pp. 101, 118 and 219–21.

is well aware of the agriculturist's not being in a position to do so, with the formal promise that not long after a new loan will be granted to him, we find this altogether unreasonable and practically criminal. The reason urged of his pretended economic education is, surely, against such tactics being employed, because it teaches the agriculturist the game of compromise, and of rigging, also attachment to form and despising of substance. At the same time he is thrown as an easy prey into the claws of usury, or finds himself obliged to sacrifice his products at ridiculous prices.

(b) *The Due dates.*—The coinciding of due dates—viz. for the repayment in full of short-term loans, and the payment of debt-sinking or annual instalments of long-term ones—with the harvesting seasons in each district is absolutely imposed. This will facilitate their payment by the agriculturist and avoid for him unnecessary expenditure burdens and loss of time. It will also simplify formalities and reduce the cost of the encashment of agricultural debts.

(c) *The Guarantees.*

1. *General Remarks.*—As already pointed out,[1] the various categories of credit put at the disposal of the agriculturist ought to be independent of each other. It would, therefore, be advisable to establish the principle that current exploitation loans be granted on the basis of personal mutual liability of the agriculturists, and loans for the conservation of products and the supply of machinery, live-stock and suchlike against pledges, ameliorations loans against agricultural or ordinary mortgages, and land loans against a mortgage. For the last two instances, the combining of mutual liability with land guarantees is not to be excluded. But in all these cases it would be desirable to have insurances brought into play.

In this way a perfect state of things would prevail, there would be a physiological limitation to each category of indebtedness, Credits granted to the agriculturist would be the highest possible, and in no case would the utilisation of a given category prevent recourse to any one of the remainder.

[1] *Vide:* The Importance of the Limits and of the Actual Contents of Agricultural Credit Branches, p. 153.

2. *The Importance of Productive Utilisation of Credits and the Guarantees.*—The greatest care by credit institutions of agriculture during the granting of the loans should be concentrated on a productive and proper utilisation of the credits.[1] To start with, they should endeavour to ascertain the actual intentions and the objective needs of the persons applying for financial assistance, in order to be able properly to weigh such application and to define the form and other elements pertaining to the loan in conformity with the requirements of the objects for which it is going to be utilised.[2] They should then follow up and direct the prospective borrowers in its utilisation, so as to obtain the best practicable results through the loan's medium. The guaranteeing of the loan must certainly not be overlooked.[3] As a rule, however, the institutions ought not to hesitate to reject a request for a loan in instances where they have justifiable doubts as regards its proper utilisation in connection with agriculture, irrespective as to whether the applicant offers full guarantees of timely repayment. On the other hand, the institution is under obligation to support a cultivator possessed of comparatively inferior guarantees, and, consequently, less eligible as far as his standing is concerned, but presenting full security as to the proper utilisation of the loan in connection with agriculture.

(d) *The Interest Rates.*—From what has already been shown in various parts of this present study, it results that the cost, that is the interest rate of agricultural loans, depends, on the one hand, upon the rates of interest prevailing on the money and capital markets, and, on the other; upon the volume and cost of the various State, etc., aids to Agricultural Credit. Nevertheless, when regulating the interest to be charged on agricultural loans by the institutions of Agricultural Credit, it is incorrect to take into account only the general cost of Agricultural Credit and the covering of the

[1] *Vide:* What Principles should be adhered to on granting Real Estate Loans? p. 127; and elsewhere.

[2] *Vide:* p. 208.

[3] *Vide supra:* Guarantees and Destination of Loans (in: Specific Characteristics of the Agricultural Credit), p. 20; also: Guarantees in Agricultural Credit, pp. 57 sqq.

expenses of the institution, excluding the fact of any important profit. Other factors and considerations must be taken into account also, imposed either by the credit policy followed by the institution—which is usually connected with the agrarian policy of the country—or by technical reasons. The leading factors among these are: (*a*) the specific object of the loan (current exploitation, supply of machinery, livestock, etc., carrying out of improvements or purchase and extension of landed property). Decisive upon the interest rates, are, on the one part, the productivity of the branch and, on the other, its advisability; (*b*) the nature and the capability of the enterprise; (*c*) the form of the enterprise —for the purpose especially of reinforcing co-operative institutions by fixing for these lower interest rates; (*d*) the cost of distribution and of calling in loans and the respective difficulties—by fixing low rates of interest for the co-operatives, still lower for the second degree co-operative organisations, and even lower still for any third degree organisations, in order to facilitate the work and reduce expenses; (*e*) the actual substance value of the guarantees offered.

Generally, we have to again point out that the level of interest rates in agriculture should, at the price of any sacrifice, be kept down as far as possible.[1]

(e) *The Canalising of Credits.*—It must be admitted that if, even with regard to trade, great difficulties are encountered as regards the definition and following up of credits canalised to the borrower from the central institution, in the transacting of Agricultural Credit it would prove a vain endeavour to administer, through centralisation, the work of canalising of credits and of following up, in all particulars, the utilisation of loans. The care and responsibility of regulating the amount of loans and also of following them up, excepting in a few instances, reverts only to the co-operative. The Union of Credit Co-operatives should only be burdened with the work of the distribution of loans among the co-operatives, and also of their control. Finally, with the higher degree institutions the work of

[1] *Vide* also: pp. 19, 103, 110, 115–16, 135, etc.

distribution and control remains within their narrower frame (viz., that of unions, etc.).[1]

Should the co-operatives not prove to be ripe for the purpose, it is essential that training and education should intervene. But such training is not achieved by the overhead institutions taking over the co-operatives' duties, which would lead to their complete estrangement from their work. It is far more advisable to appoint—during the transitory period—officials to the co-operatives and to carry on this work through the medium of the latter, but in collaboration with the boards of the respective co-operative associations. This would guarantee the evolution, by degrees, of their administration and ensure their reaching the required prestige.

(4) *The Transacting of Non-Banking Operations.*[2]

(a) *Loans in Kind.*—Great discussions and criticism have arisen as regards the advisability for Agricultural Credit institutions to undertake the supply of agricultural machinery, manure and, generally, of supplies and articles of every description useful for agricultural exploitation, by granting these to the agriculturist as credits in kind. The Agricultural Credit institutions are not, certainly, commercial ones as well, therefore it would be far more desirable that these supplies should be made preferably by supply co-operatives, suitably reinforced to this end by the Agricultural Credit formations.

Nevertheless, this sort of business cannot be considered as altogether strange to the Agricultural Credit institutions. And the services rendered thereby to the agriculturist and to agricultural production—wherever the effecting of these supplies directly by the supply co-operatives proves impracticable—by according to them choice, suitable and comparatively cheaply priced seed, manure, machinery, and other articles of first necessity, are incalculable. Such a policy of the Agricultural Credit organisation, under an enlightened management, may, in a few years' time, effect radical changes in agricultural production, and in an inexpensive way, whilst to attain the same results by following

[1] *Vide supra*, and, especially: pp. 78 and 190 sqq.
[2] Cf. also pp. 55–6.

any other plan would mean untiring efforts and unremitted endeavours during a series of decades.

(b) *Concentration and Marketing of Agricultural Products.*—The same practical tactics should be applied in respect of the problem of concentration and disposal of agricultural products. Here, the institutions most indicated for this work are the co-operatives for the transforming and trading of agricultural products, to which the Agricultural Credit network must accord its fullest assistance. But where similar institutions do not exist, or are not as yet able to carry through the work in a satisfactory manner, the initiative reverts to the credit network—as above—which, however, after organising and directing the work for a time, should entrust it to the before-mentioned special co-operatives, and limit itself to a simple form of supervision from a distance and to its credit work.

(c) *Agricultural Insurances.*—Agricultural insurances represent an additional guarantee at all times desirable for credit institutions of rural districts where no guarantee, excepting the mortgage on land, amply secures the creditor—and even the latter not always in full.[1] Besides, the insurances, by dispersing the uncertainty for the agriculturist as to his enjoying the fruits of his many sacrifices, cannot but effect a change in his mentality. Apart from the attracting of capital—through their ampler guaranteeing they represent, therefore, also a very good means for educating the agricultural class. But, unfortunately, as already seen,[2] they are used to a very limited extent. It would, consequently, be advisable to have insurances combined, at least in the beginning, with the actual transaction of Agricultural Credit—viz., the credit institution itself to insure the non-harvested yield, for instance, or the live-stock on which an agricultural pledge is registered—so as to accustom the agriculturist to this, as well as to guarantee the credit institution. These insurances may be effected by the credit institution for its own account, or, what is preferable, for the account of an insurance institution or

[1] *Vide:* p. 64.
[2] *Vide:* Insurances as Agricultural Guarantees, p. 72.

organisation, in accordance with the circumstances, against mortality (in respect of live-stock), fire, frost, hail and any other risk or risks.

(d) *Colonisation and Agrarian Reform.*—The vast sums of capital required for colonisation work and the realisation of agrarian reform are disposed of partly by the State, but in greater proportion by the Agricultural Credit formations of each country. The question has arisen as to how far a more active, direct intervention of the latter is advisable in the realisation of these objects. The work is outside the activities of credit institutions. For this reason they should limit themselves to the financing of organisations and co-operatives specially established for their purpose.

D. Radical Reforms in the Methods of transacting Agricultural Credit

(1) *Substitution of Personal Credit by Credit against Pledges.*

In the policy of the Agricultural Credit institutions, in most countries, a fixed tendency has been noticed, for some time, towards the limitation of personal loans and increase of those against pledges of agricultural products, yields and supplies, and especially against pledges of live and ordinary stock.[1] We have not failed to emphasise the usefulness of the Agricultural Credit against pledges.[2] We cannot, nevertheless, approve of its development at the expense of personal credit for the following two main reasons. The first one is of a material, the second of a moral nature. First, as far as the possibilities for credit reinforcement for the agriculturist, based on his personal economic superficies, remain—even partially—unutilised, we cannot see to what end the credit against pledges should be resorted to, considering this fact limits substantially the credit potentialities of the agriculturist.[3] Secondly, this tendency cuts down the effort already begun towards educat-

[1] *Vide:* Travaux du Comité Consultatif Économique de la, cf. D.N., IIème Session (6 Mai 1929), in: Inst. Intern. d'Agr., *Documentation, etc.*, p. 269.

[2] Cf. The Agricultural Credit against Pledges, pp. 90 sqq.

[3] *Vide:* pp. 153 and 213.

ing the agriculturist, and causes great prejudice to the co-operative idea by shaking his faith in it.[1]

(2) *In what direction Reforms should turn.*—On the contrary, in other directions there is a very wide field for reforms, and, specifically, as regards the duration of loans and their form and combinations in general.

(3) *Substitution of Short-term Loans by Medium-term Loans.*

(a) *Disadvantages of Short-term Loans.*—Even in cases when there are no extensive amelioration works, or radical changes to be realised in the cultivation systems of agricultural production, the setting forth and application of a cultivation programme, calculated for a series of years and demanding a sure economic basis, is imperative.

This programme cannot be applied by the agriculturist on the strength of hopes, or even of a prevision of the measure of his reinforcement within the following few years, because very often an eventual, even a small reduction of the sum on which he has been basing his calculations may result in the complete reversal of his whole programme, may render altogether useless the expenditure already effected, and destroy the equilibrium of the whole of his private economy.[2] Besides, the agriculturist, on account of the uncertainty as to the results of his enterprise, cannot base himself on the issue of only a year's turnover, but it must be on a series of years. He is never, therefore, sure that, at maturity of his short-term loan, he will be in a position to fulfil his obligations, for which he reckons on discounting in advance the happy result of his enterprise during the period of time in question. But even if he has had a good yield, lack of demand and eventual low prices during harvest time may force him to declare himself unable to meet his obligations, or to dispose of his products at low prices, unless he succeeds in securing a loan against their pledge—a thing which usually occurs under heavier conditions and is accompanied with a considerable vexatious business and additional expenses.[3]

[1] *Vide:* The Mutual Liability Personal Credit, pp. 77 sqq.; and: The Ideal System of Organisation of Agricultural Credit, pp. 189 sqq.

[2] *Vide:* The Amounts of Loans, p. 209, and: The Conditions of Granting of Loans, pp. 210 sqq.

[3] *Vide* also: pp. 211 sqq.

(b) *Advisability of Substituting Short-term Loans by Loans of a Longer Duration.*—This situation is leading to the idea of substituting short-term by medium or even long-period loans, for the sake even of the needs of current exploitation of agricultural enterprise.

That this change is imposed, at least theoretically, and especially from the standpoint of the agriculturist's private economy and that of production policy, there can be no doubt. It would also relieve the Agricultural Credit institutions from aimless busying about, and allow them to devote themselves entirely to the work, rich in results, of following up and guiding the agriculturist. But the question arises: What would be the practical results upon agricultural production of such medium or long-term loans being granted in a general way, and what would be their influence upon the economic education of the agriculturist? We have no doubt that, provided the following up were unremitting and enlightened, the introduction of this reform would only be instrumental of good.

(c) *Presuppositions of a Successful Solution of the Problem.*—The question, however, requires to be well studied in its details, in order to find the proper type of loans for each district, and even for each separate instance. Nevertheless, at first sight in most instances, the necessity may be seen for a partial return, by instalments, of the loans, their irrevocability and the possibility of deferring the payment of an instalment in circumstances adverse for the agriculturist. Also it would be desirable to have appropriately amalgamated, loans destined for current exploitation needs with loans for consolidated means of exploitation. In this way the effort would be complete, and the results the best possible.

(4) *Loans on Current Account.*

As regards the needs of exploitation credit, the system of loans on current account should especially be studied. A maximum limit of credit for each agriculturist would be fixed, also for each co-operative, etc., for a more or less extended period of time, during which the credit institution would not be entitled to refuse to grant the sums provided

for by the agreement, which latter would be founded upon the real needs of the borrower, ascertained after a careful scrutiny. The agriculturist, on the other hand, would be called upon to deposit against his account certain sums, at his convenience, up to the limit fixed, within a set elastic frame for each instance. As regards the liquidation of the current account, this should be partial, at set intervals of time, and in conformity with the aforestated principles concerning the debt-sinking of long-term loans.[1]

E. Necessity for a Credit Tutelage and Economic Education of the Agriculturist

(1) *Credit Tutelage.*

When the guarantees presented by a merchant or industrialist are sufficient, and the credit institution disposes of material means—irrespective of their being cheap or costly—the institution as a rule, and within fixed bounds, grants the loan requested without interesting itself at all how far its contraction is, in principle, profitable for the borrower, and to what extent the latter is able properly to utilise the loan.

This procedure is not permitted in the transacting of Agricultural Credit. The Agricultural Credit institution is under obligation to exercise a tutelage upon the agriculturist as regards, at least, the latter's loaning policy. Every application for a loan, as already pointed out, should be the object of a scrutiny and weighed up with the utmost care from both the technical and economic side, and the amount and terms of the grant of the loan should be regulated by the credit institution itself on the basis of data as to the special conditions under which it is going to be utilised. Wherever the general level of interest rates on agricultural loans is found to be a high one, and the terms of their grant cannot

[1] It is clear that these "Current Accounts" present a substantial difference as compared with those utilised between the other productive branches and the credit institutions. The movement in agricultural current accounts would perforce be by much inferior.

be fully adapted to the requirements of these conditions, a greater caution is imposed. And only when the Agricultural Credit institution can satisfy itself that, irrespective of its eventually being costly, the loan would not prove unprofitable for the agriculturist but would result in increase of income derived from his enterprise, especially net income, or in cases when the loan is indispensable for the continuity of the work of agricultural production—which, without it, would be endangered—should the institution not refuse to grant the loan. Even in similar instances the amount of the loan should not exceed the amount absolutely necessary, so as to avoid heavily burdening the agriculturist in excess of what is absolutely indispensable for him.

The mission of the agricultural institution, however, does not end here. The agriculturist should not only be controlled in the contracting and utilisation of the loan but he should also, and in advance, be enlightened and persuaded as to the most appropriate way of utilising the loan granted to him, especially in instances of carrying out of improvements.

(2) *The Economic Education.*

The uncertainty of the outcome of the agricultural enterprise makes it easily believable that the agriculturist may be in a *bona fide* inability to meet his loan obligations when due. His creditors, therefore, very often do not refuse to extend or renew the loans granted. So, in time, and under the psychological effect of eventual disappointments of his hopes of the outcome of a yield, and owing to repeated deferring of the execution of his obligations under the loan, sometimes for good reasons, and sometimes not, the agriculturist arrives at the point of losing the real feeling of his economic responsibility—a feeling very little developed in him on account of lack of general education—and he becomes altogether incapable of regulating his economic life. One of the principal missions, therefore, of the organisation of Agricultural Credit ought to be also the counteraction of these ruinous tendencies, which have their roots deeply in the soul of the usually simple agriculturist. The institu-

tions, therefore, of Agricultural Credit ought to take upon themselves the heavy work of educating the agricultural class, combining this with that of co-operative education.

F. Contribution of the Agriculturist to Agricultural Credit Work

Although the principles acted upon and the systems and means utilised by Agricultural Credit institutions may be excellent and their boards of administration as capable and as enlightened as they can be, the work of these institutions cannot be crowned with full success if it is not facilitated and helped by the confidence of the agricultural class.

The relations of the agriculturist with the Agricultural Credit institution should be inspired by sincerity and honesty. The agriculturist should never demand more than he really needs for his production work, more than he is sure that he will be absolutely in a position to repay in due time, nor should he ever try to cheat as regards the real object and destination of the loan applied for, and also his calculated results therefrom. From the very moment of his obtaining the loan he must be incessantly vigilant to arrange for its timely return, the attainment of which he must endeavour to realise by all means, at the price of sacrifices, even if he anticipates that on its account he is going to feel a great financial strain and to undergo serious privations.

In a more general way, he ought at all times to bear in mind that his proper interest is not to work eternally with loaned money, increasing his debts from day to day, but that he should aim not only at reaching a self-sufficiency but also at the accumulation of savings, so that only in exceptional cases need he revert for the future to credit, with the object of utilising more perfect means and implements, for the carrying out of improvements, for the facing of possible exceptional circumstances. He will attain all this only provided he works steadily and on a properly studied programme, and in all his activities is inspired by a spirit of orderliness and thrift.

The agricultural classes should so esteem the Agricultural

Credit formation, so interest themselves in it, as to consider as its enemy anyone who, owing to bad faith or recklessness, may in any way cause damage and losses to it. Considering that the whole population of a given country, through the State, so gladly and so readily accepts the burden of sacrifices in order to organise Agricultural Credit and endow it with sufficient means, it would be a real folly if the class in favour of which the sacrifices are being made should be the cause of losses to it, or even show itself indifferent to it.

CHAPTER XI

THE INTERNATIONAL AGRICULTURAL CREDIT

A. Capital in World Agricultural Economy

(1) *The Relativeness of the Insufficiency and the Sufficiency of Capital in Various Countries.*

We speak about insufficiency of agricultural capital prevailing in some countries, about sufficiency and about excess of it in others. But all these things are very relative. That is to say, it would only be right to speak of a more or less existing insufficiency, about comparative sufficiency and excess of capital, in connection always with conditions prevailing.

(2) *The Measure of Needs in Capital for Agriculture in the various Countries.*

The most appropriate basis for defining the needs in agricultural capital, we consider would be, the possibility for a profitable economic utilisation of this capital in agriculture in conformity with the "rational" carrying of the whole of world agricultural production. In practice, however, the needs in question are defined on the basis of the general economic conditions prevailing in each country, and only when a further utilisation of this capital in agriculture, as well as in the remainder of the productive branches, becomes economically unprofitable, or, when the terms of its utilisation within the boundaries of the country are far less profitable than abroad, is capital considered as being actually in excess, and the point may arise for its disposal in favour of agriculture, or some other productive branch of another country.

(3) *Motives for the Transmission of Capital from Country to Country in favour of Agriculture.*

It results from the above that the problem of the influx of capital into a country, whose agriculture needs it, cannot be examined onesidedly. And it would not be permissible to imagine that the mutual sympathy and dependence of the agricultural classes would suffice for deciding to dispose of such possible excess of agricultural capital of a given country in favour of the agriculture of another country, or in favour of an agglomeration of countries, in which an insufficiency has been noted.

On the other hand, there are no reasons whatever for the financing of agriculture of a country lacking its own capital to be based solely on reinforcements by capital belonging to the agricultural class of other countries. Besides, it is impossible to distinguish and classify capital seeking an outlet into "agricultural," "industrial," etc., according to origin, because when capital is freed, it ceases to bear the hallmark of its origin, and the capitalist usually does not take any practical interest as to which branch of production it is going to be utilised in—under equal conditions and against equal guarantees offered.[1]

We are, furthermore, obliged to take into consideration that, if the sufficiency of Agricultural Credit within the various countries is only comparative, still more relative is the satisfaction in capital of the agriculture of countries considered to be disposing of excess agricultural capital, in comparison with the satisfaction of the remainder of the productive branches, and, more especially, that of Industry. And, for reasons already stated,[2] the satisfying of the latter is usually far more complete.

(4) *Interdependence of Agricultural and Industrial Production.*

The interdependence of industrial and agricultural production is unquestionable, and especially as regards the influence of sufficiency and cheapness of agricultural products

[1] *Vide* also: p. 21.
[2] *Vide*: Relations between Agricultural Credit and Market of Capital, p. 35.

upon the productive factors and conditions of industry, also the development of agriculture and the welfare of rural districts upon the consumption of industrial products. From this connection it is therefore to the interest of industry, as of all the remaining productive branches, for agriculture to have abundant means for production and especially the requisite capital for its rational organisation. This allows for production in abundance of agricultural products under the best economic conditions, with as small cost as possible to the agriculturist, so that he may find profitable marketing at comparatively low prices, and have sufficient margin of profits for the gradual improvement of his means of cultivation (machinery, implements, manures, etc.), as well as of his standard of living. In this manner it would prove practicable to keep the wages of industrial labour at a level profitable for the Industrialist, and, on the other hand, the consumption capacity of the rural population and the imports of industrial products would be continuously increasing. The agriculture of many countries, therefore, may rely far more on the interest taken by foreign industry for its reinforcement than upon foreign agriculture, with which it often finds itself clashing as regards their respective interests. Anyhow, the problem of credit reinforcement to agriculture exceeds the narrow bounds of the state, as it interests the whole of international social economy.

The question arises how to facilitate and regulate the transfers of capital from place to place, which is imposed for the sake of agriculture, among those countries where a lack of such capital is noticeable. But this does not represent the whole of the problem, nor can it be actually put into the above simple form.

B. Under what Conditions has the Problem of International Organisation of Agricultural Credit been Tackled

(1) *The History of it.*

The occasion for considering and studying the question of international organisation of Agricultural Credit was given by the scarcity of agricultural products, and especially

of wheat, which was very much felt during the first five years after the Great War. The abundance of economic means at the disposal of the rural population in those countries, in which was possible a far greater production of the very articles in which the scarcity of supply had been noted, was then judged to be indispensable for the increase of the world's agricultural production, and especially that of wheat.[1]

(2) *The Necessity for a Rational Repartition of Capital.*

Things, however, have since changed entirely. That is to say, we not only already have a sufficiency of agricultural products throughout the world, but even a surplus, owing to over-production on the one part, and on the other, under-consumption of many articles, which—the confusion in the distribution of these articles greatly helping—has produced at least a partial, and for many articles a general, crisis in lack of sales, and plethoric offers, often disproportionately great in comparison with the stocks available, and has led to the fall in prices of most of them to the lowest levels ever registered in pre-War times. And, instead of increase of agricultural production, for some time the limitation and the regulating of it in a rational way has been widely discussed.

How far then does the question of international organisation of Agricultural Credit continue to bear the same importance for international agricultural economy, and is it still of a pressing nature? It is perfectly clear that the above-stated cause has not been the deeper reason for bringing to the forefront the question of Agricultural Credit. This

[1] The problem was first put during the International Inter-Parliamentary Trade Conference in Brussels, in 1924, and has been on the agenda of all the following Conferences, viz., that held in Rome in 1925, in Rio de Janeiro in 1927, in Algiers in 1929 (Commission Permanente Agricole). But the matter of the international organisation of Agricultural Credit was taken up for systematic study by the International Institute of Agriculture of Rome, urged on by the above Conferences. The problem has been an object of special study by both the XIIth and the XIIIth International Agricultural Congresses, also by the International Economic Conference of 1927, under the auspices of the League of Nations, which has, since, actively undertaken the solution of the problem. (Cf. Minutes of Meetings of the International Inter-Parliamentary Conferences and of the International Economics Conference of 1927. Also: "Actes" of the XIIth and XIIIth International Agricultural Congresses, and the Series published by the League of Nations.)

problem arose out of the general evolution of social economy, and more especially of that relating to agricultural economy, specifically during the post-War period, and, therefore, its solution presents an exceptional interest for the regulation of agricultural production conditions in conformity with the new needs that have appeared.

The interest becomes so much the more lively as the necessity is recognised for a rational international organisation (rationalisation) of agricultural production,[1] and for a rational distribution of agricultural capital in conformity with the needs of each locality. The exterior specialisation and repartition of work in agriculture,[2] an immediate result but also a presupposition of the rationalisation of agricultural production—both within the boundaries of States and internationally [3]—presuppose a distribution of the universally disposable agricultural capital corresponding to the prevailing and the new aims of agricultural economy in each country. And this work of regulating the distribution of the factor "capital" in international agricultural production by concentrating agricultural capital found in a given country to be in excess—either because it cannot be utilised owing to lack of sufficient land and labour, or because such utilisation is unprofitable—and of disposing of this capital where there exists a sufficiency of the two other factors of production and generally favourable conditions for the influx of new capital, cannot be undertaken without the existence of an *ad hoc* international organisation perfect in every respect.

C. Direct Advances

(1) *How the Problem of International Agricultural Credit was originally faced.*

Up to the present the problem of international organisation of Agricultural Credit has only been faced as a means

[1] *Vide:* Alex. J. Boyazoglu and C. Protopapas, "The XIVth International Agricultural Congress, Part III: The Completion of the Work of the Congress," in *Archives of Social and Economic Sciences*, Athens, 1930, Vol. X, part A, pp. 28 sqq.

[2] This is being realised mainly by more or less extensive specialisation in given cultures, by districts, and more partially from enterprise to enterprise.

[3] Cf. *supra*, A. J. Boyazoglu and C. Protopapas, *op. cit.*, p. 29.

of completing the credits of those among the countries that required financial reinforcement abroad, by utilising the excess of agricultural and/or other kinds of credits of other countries.

This exterior reinforcement could be effected under the shape of non-organised direct advances from one country to another.

But, if this reinforcement were to be considered as a purely banking transaction, it would prove insignificant, because any excess capital would surely become attracted in other far more profitable directions. Very often political considerations impose the influx of capital from one country to another and, whether economically profitable or not, considerable direct advances are made.[1] But it is not our intention to deal with these matters.

The problem of direct advances has been studied in conjunction with: (a) the supply of agricultural products to countries requiring them, (b) in connection with the exports of industrial products useful to agriculture, and (c) in conjunction with the exchange of industrial against agricultural products, and of agricultural products against agricultural also.

(2) *The combining of the Granting of Credits with the Obligation for the Country borrowing to render Agricultural Products against Credits granted.*

It is generally in the interests of industrial countries to keep, as far as possible permanently, the cost of living to the lowest practicable level, in order to be able steadily to keep labour costs of their industries to low levels, and to be in a position to compete successfully, as regards prices of industrial products, on the international market. It is, therefore, advisable for an industrial country to dispose of capital in favour of the agriculture of another country under the form of advances against sales by the agricultural country in advance, and at convenient prices usually fixed in anticipation, of specified agricultural goods, usually foodstuffs, or even other articles of prime necessity. In this

[1] *Vide:* Stephanidi, *op. cit.*, p. 28.

manner the industrial country is sufficiently indemnified for the placing of its capital at a comparatively low rate of interest by securing a stable and satisfactory status of wages for a set period,[1] whilst the agricultural country secures in its favour abundant and comparatively cheap capital, for the sake of which it is often advisable to undergo a small sacrifice in respect of the price which it might eventually obtain for its products if it remained a free agent. This difference has very often a corresponding counterbalance in the difference arising out of the rates of interest which the said country would certainly have to pay under different conditions, and there remains also the more general benefit arising out of its economic re-inforcement.

(3) *Credits in Industrial Products.*

In many instances, again, it is in the best interests of industrial countries to secure in advance the disposal of, at least, a part of their industrial production, in order to allow their industries to work to their full capacity, consequently, with their general costs reduced to the minimum, in which case they ensure their successful competition with foreign industrial products and also outlets for the disposal of the remainder of their production. With this object they would be open to grant part of their industrial products on credit. On the other hand, agriculturists needing industrial products (chemical manure, tools, implements, machinery), and lacking the requisite means for obtaining these, would be glad to have them secured on credit, provided these articles are suited to their needs, and the terms of granting them, and also of the credit, are suitable and bearable.

(4) *Combining the Granting of Credits in Industrial Products in exchange for Agricultural Products.*

It often proves practicable, as well, to combine the grant of industrial products on credit with the borrowing country undertaking the obligation to render, on terms fixed in advance, agricultural articles of its own production. In

[1] *Vide*: p. 226.

this instance the granting of credit facilitates also an exchange of products which usually proves beneficial to both countries concerned.

(5) *Combining the Granting of Credits with Exchange of Agricultural Products.*

Finally, there is not excluded the grant of credits by an agricultural country to a similar country combined with an exchange of their respective agricultural products, these being totally different between themselves. The granting of credits could be effected in agricultural products of the creditor country and the repayment of the loan also in agricultural products of the borrowing country. In this manner the mutual completing and meeting of the needs of the two countries is attained to their mutual benefit.[1]

(6) *The Most Preferable Combination.*

Prevailing opinion stands for the preference being given to credits in money.[2] Nevertheless, credits in kind, and especially in industrial products, should not be excluded.

On the contrary, we judge this to deserve much more attention owing to its proving attractive for the creditor country, being more easy of attainment, and therefore realisable on a far more extensive scale. On account of the advantages it presents for the creditor, the latter is very often open to make substantial sacrifices as regards the terms of the granting of the loan. And we should always bear in mind, that it is not in the interest of the person desiring to obtain credits to display a lack of flexibility towards the preferences of the creditor, provided this elasticity of his does not prove detrimental. In the point at issue, the acceptance or rejecting of credits in kind, or the giving preference to those in money, depends absolutely upon the valuation of the needs of the party desirous of contracting the loan and of the terms under which the economic reinforce-

[1] *Vide:* Inst. Intern. d'Agr., *Documentation*, etc., p. 167.

[2] Cf. Works of the "Commission Internationale du Crédit Agricole" (of the International Institute of Agriculture) for September–October 1925, in: Inst. Intern. d'Agr., *Documentation*, etc., p. 183.

ment is being offered; that is, so far as it remains with the borrower to chose between the said two categories.

(7) *Presuppositions of the Utility and Practicability of Direct Advances.*

(a) *Existence of Organisations presenting the Requisite Guarantees.*—For the purpose of making practicable the granting of direct advances from one country to another, in conjunction with the disposal or the exchange of agricultural products, the existence is presupposed of the corresponding organisation, and especially of agricultural organisations presenting full guarantees as regards the contracting of the loan, and also of every confidence as to their capability for carrying through the whole business. The guarantees are of an economic, technical and moral nature. That is to say, they, and especially the agricultural organisations, should present an economic scope adequate for such big work, and in conformity with each instance they should possess the requisite organisation, warehouses, silos, cold storage and transport means suitable for the articles to be thus concentrated, and, finally, they should be in a position to exercise the strictest control over the products forming the object of the agreement. Naturally, the creditor country also should be possessed of a suitable organisation, in all instances when credit is being granted in kind.[1]

In instances of the lack of an organisation and of institutions such as the ones described above in general lines, the realisation of direct advances in conjunction with the aforestated combinations is excluded.

(b) *The Permanency of Credits Granted.*—It is also necessary that the creditor country should accord all the requisite guarantees that the influx of capital would not be merely temporary or spasmodic, but continuous and regular, allowing for the benefit derived therefrom to be substantial, stable and assured.

(c) *State Aid.*—Finally, State aid is as a rule required for

[1] Cf. Sigismond Chrzanowski's remarks, in: Inst. Intern. d'Agr., *Documentation*, etc., p. 141.

the purpose, on the part of the government of both contracting parties, viz., the countries concerned. That of the borrowing country, for the granting of the eventually required additional guarantee of the State, also for the reinforcing and aiding by all available means of the respective organisations to fulfil their obligations emanating from the agreement (transport facilities for articles imported and exported, fiscal exemptions or, at least, lightening of taxes and duties, etc.), and that of the creditor country, by abolishing any restrictions as regards export of capital, and also by granting import facilities in respect of imports of products of the debtor country destined for the repayment of the respective loan (customs duties and transport facilities). In the case of a loan in kind (industrial and/or agricultural products), apart from the items referred to above, additional and mutual state facilities and fiscal privileges are required (export privileges for the creditor country, import privileges for the country availing itself of credit).

(8) *The Impracticability of Direct Advances.*

The problem, therefore, of direct advances of a given State to another State under the shape described above is anything but simple and easy, contrary to what seems to appear at first sight.

(9) *The Insufficiency of Direct Advances.*

At any rate, the more or less direct advances represent only a partial solution of the problem of credit reinforcement for countries in which a lack of Agricultural Credit is noticeable.[1] They are only an endeavour to find an outline of solution for the transacting of international Agricultural

[1] Amazingly enough, during most of the International Congresses and conferences of experts and scientists, the difficulties presented by direct advances combined with the transactions mentioned have often been left entirely outside their scope, and direct advances from State to State, especially those in kind, have been presented: as the first step towards realising the idea of an international organisation of Agricultural Credit for people believing in its practicability, and as the only practicable form of it for those labouring under the impression that the idea of its more complete organisation through the medium of an International Agricultural Institution is purely chimerical. (Cf. The Minutes of Meetings and Conclusions of the various Conferences, in: Inst. Intern. d'Agr., *Documentation*, etc.)

Credit, and, finally, something practically unconnected with international Agricultural Credit, at least as we understand it, viz., having the wide mission of regulating the factor "capital" in international agricultural economy. Anyhow, the problem of the insufficiency of these credits remains always, and the question of how to find the rest of the capital required for the needs of world agricultural economy continues in being. To this effect it is clear that the existence of a more systematic organisation *ad hoc*—an organisation which would bring about the realisation of even the direct advances from State to State—is practically indispensable.

D. Solutions proposed for the International Organisation of Agricultural Credit

The solutions proposed for the international organisation of Agricultural Credit are the following three in their respective order: (1) the calling of periodical conferences of those concerned from the various States; (2) the establishment of a permanent advisory office; (3) the establishment of a central international credit institution, entrusted with the administration of the whole question of international Agricultural Credit.[1]

(1) *The Periodical Conferences.*

A first step towards the realisation of the international organisation of Agricultural Credit is considered to be periodical conferences of the representatives: (*a*) of higher degree co-operative organisations and similar formations, (*b*) of the Agricultural Credit institutions of the countries interested in obtaining credits from abroad, (*c*) of those among them disposed to place capital on the foreign market. During these conferences, which would represent merely markets of agricultural capital—under varying forms—the contact between those concerned and the realising of agreements for the granting of credits under the form of direct advances, through the channel of combinations

1 *Vide:* Inst. Intern. d'Agr., *Documentation*, etc., pp. 93, 119, 163, 183, etc.

mutually beneficial to the contracting parties, would be attained.

The extent, however, of the results from similar conferences cannot be a very wide one, because transactions of this kind presuppose, as a rule, preparatory work and also a permanent contact, which, owing to their very nature, the institutions without a permanent organisation, such as periodical conferences, are unable to create.

(2) *The Permanent Advisory Office.*

The calling into being of a permanent advisory office has, therefore, been considered indispensable. The mission of this office would consist in collecting information, studying all questions relating to international Agricultural Credit, and passing on this information to those interested. In this way the contact and the harmonisation of the varying interests and conceptions is more easily attained. The office could also establish types of agreements for the usual categories of direct credit, and act as arbiter in differences arising between the contracting parties.

(3) *Combining " Conferences " and " Advisory Office.'*

Thus the periodical conferences and the advisory office are complementary to one another; because, whilst the latter would carry out all preparatory work for the meeting of conferences and pave the way, the conferences would meet to regulate matters exceeding the limits of the mission of the office. By their work in common they would better contribute to the success of their common aims.

But though it may be beneficial, the combination of the permanent advisory office and of the periodical conferences—regardless of excessive weight and importance attributed to it—cannot be imagined as being capable of responding more or less sufficiently to the ever-increasing needs of Agricultural Credit within the International frame. Only an exceptionally powerful credit organisation, or rather an omnipotent institution, would be in a position to meet and serve these needs and requirements; the conferences and the office could only be considered as the pioneers.

(4) *The Establishment of an International Institution of Agricultural Credit.*

The idea of establishing a permanent international organisation of Agricultural Credit has been one of the first to be dealt with by scientists and experts in the endeavour to solve the problem of organisation of Agricultural Credit over and above the boundaries of the States.[1]

From the beginning, however, so many difficulties of every description arose, that the practicability of the idea has been doubted, and there were some who judged it altogether impossible to realise.[2] Even the most enthusiastic saw that the organisation of a similar institution does not lend itself to realisation as quickly as might have been hoped. It has been judged necessary firstly to have examined all questions connected with it, either economic, technical, legal, or political, to have the field cleared of the existing serious obstacles and then to put in hand this really excellent scheme.[3]

(a) *Aspects of the Problem.*—The problem of the organisation of the international Agricultural Credit institution will occupy us from the point of view of organisation, from that of securing the requisite means, and also from the standpoint of the policy to be applied by the Institution.

But, first: Is the idea of establishing an international Agricultural Credit institution realisable? The measure of possibility of applying in practice this theoretically reasonable idea will be given by an examination of the existing difficulties.

(b) *The Difficulties.*—The principal difficulties to be encountered and faced by the establishment of an inter-

[1] *Vide:* Works of the various international commissions on Agricultural Credit, in: Inst. Intern. d'Agr., *Documentation,* etc., pp. 95, 163, 165, 167, 170–74 and 185.

[2] *Vide:* in minutes of the "International Economic Conference" of 1927, the opinion of Dr. Kissler, director of the Deutsche Rentenbank-Kreditanstalt, in: Inst. Intern. d'Agr., *Documentation,* etc., p. 253. Also: Inst. Intern. d'Agr., *Crédit Agricole International, Principaux Résultats d'une Enquête Bancaire,* p. 17.

[3] It has been found advisable to entrust the projected permanent office and the conferences—of those that could speak with authority on the subject—with the preparatory work, and this has been the actual way followed to a certain extent.

national Agricultural Credit institution may thus be summed up:

1. The doubts probably entertained by certain States as to admitting the intervention—emanating out of the right of control—in their economic and financial policy by an organisation which is strange to them and under the guardianship of which the national Agricultural Credit institutions would have to be brought, also the subserviency to which the rural economy of the respective countries would be more or less subjected.

2. The indifference on the part of already advanced States possessed of an Agricultural Credit sufficiency within their State, not to mention the possible reaction of some of them to the fear that, by reinforcing countries undeveloped in this respect, they would be creating competitors on the international market.

3. The lack in many countries of national or of central Agricultural Credit institutions, which represent the indispensable foundation for the international organisation, as well as the only means for the canalisation of credit to each country.

4. The great inequality and differences in the legislation of the various countries, and especially as regards the status of real guarantees and the consequences of this.

5. The lack of a uniform monetary system.

6. The eventual monetary and other exchange anomalies in countries where monetary stabilisation has not as yet taken place.[1]

We certainly do not dispute the seriousness of the difficulties stated above, but they are to be considered anything but insurmountable. Besides, careful study of the conditions of the establishment of the outlined organisation will allow us to become more precisely acquainted with the matter.

(c) *The Bases of the Organisation.*—The idea of an entirely autonomous institution, independent in every respect of

[1] With regard to some of the aforestated points, *vide*: Communication made by Mr. Acerbo to the XIIIth International Agricultural Congress, in "Actes" of the Congress (Rome, 1927), p. 225.

organisations already existing within the national frame, must be absolutely excluded for many and various reasons. Some of these are of a technical nature, as, for instance, the necessity for the closest possible collaboration with the latter for the purpose of carrying out the predetermined aim of the institution in each country; others are of an economic nature, as, for example, the importance of capital required, and some again of a political nature, that is to say, many among the States would far more hesitate to put their rural economy under the yoke of an institution altogether unconnected with their national organisations rather than under one of the same kind in the administration of which they would partake through the representatives of their national institutions, thus being in a position to possess a certain knowledge as to the ultimate objects of the said international institution. The foundations, therefore, of the international Agricultural Credit organisation can be only laid upon the national Agricultural Credit institutions.[1]

(d) *The Form of the Institution.*—When considering the defining of the form of the international Agricultural Credit institution, we must take as a basis that the organisation of this institution should be such as to permit the avoidance of the difficulties previously mentioned, or their reduction to a minimum.

1. *The Co-operative Form.*—The first aspect of the question studied has been the advisability of preference being given to the co-operative form,[2] more especially that of the "Raiffeisen" type, since the network of credit co-operatives of this type is already sufficiently expanded over the world and is organised and constituted practically in a uniform way which represents something unique on a hierarchic scale in which the international institution would

[1] Cf. in this connection the report of Mr. Fontana on the work of the "Commission Internationale du Crédit Agricole" for September–October, 1926 (Inst. Intern. d'Agr., *Documentation*, etc., p. 183), and also respective discussions (*ibidem*, p. 171). Equally, the report of Mr. Tardy (during the February 1929 Session held in Algiers) to the "Commission Permanente Agricole" of the Inter-Parliamentary Trade Conference (*ibidem*, p. 95), and: Inst. Intern. d'Agr., *Les Questions Agricoles au point de vue International*, p. 657.

[2] *Vide*: Inst. Intern. d'Agr., *Documentation*, etc., p. 62.

take the highest place. It appeared, for a moment, that this solution would prevail,[1] but it was soon dropped, for it was recognised that international Agricultural Credit, owing to its very nature and above all on account of its Real character, could not found its organisation on the exceptionally personal character of the co-operative system.[2] Besides, we consider there is another equally serious reason which excludes the co-operative form from the organisation of the highest international institution of Agricultural Credit. We admitted that the international central institution of Agricultural Credit should be based on local national, or higher degree, Agricultural Credit institutions. But it is known that the organisation of Agricultural Credit in the various countries is not always presented under the co-operative form, nor is its full transformation into a co-operative form possible wherever this does not exist—at least not in the near future and under prevailing conditions—nor the exclusion of the organisation of Agricultural Credit of the countries which are for the first time organising this systematically, on other than co-operative bases. In what way then could the collaboration of the highest international institution, organised on co-operative principles, become possible with local national institutions founded on totally different bases (limited companies, state banks, or *sui generis* forms, etc.), side by side with central or higher degree co-operative organisations of other countries, especially where an unequal contribution on the part of every institution is involved? On the contrary, the collaboration of all Agricultural Credit organisations of every shape and description is anything but excluded from the constitution of the international Agricultural Credit institution under the form of a *sui generis* one, or even of a limited company.[3]

2. *The Form of a Company.*—At first sight the limited

[1] Cf. Discussions of the "Conférence Economique Internationale" of the League of Nations of May 1927, in: Inst. Intern. d'Agr., *Documentation*, etc., p. 258.

[2] *Vide:* Acerbo, *op. cit.*, p. 86.

[3] The latter, assuming it were possible to overcome certain difficulties, of which mention will be made later.

company appears the one most indicated, as much because of its perfect, purely banking, organisation as that the buyers of bonds are best acquainted with this form, a matter which certainly influences the disposal of the bonds.

But the question immediately arises as to what legislation it would have to be brought under, because out of it would emanate qualities which should possess legal persons that would partake in it, and all its rights and obligations. The question, therefore, of the nationality of the limited company appears on the scene. In most legislations this is defined by the point as to where the seat of its administration has been established. Consequently, upon the place chosen (*Siège Social*), to a great extent depend the contents of the company's statutes. The question also springs up of the relations between the said company and the national, or central, Agricultural Credit institutions under it. It is evident that they cannot be uniformly regulated.[1]

Besides, the preference for an institution of private law—taking into consideration especially the necessity for the latter's co-operation with the national institutions—brings about many other questions, mainly of a legal order, the solution of which, on many occasions, could only be effected through the decreeing of respective laws. The assumption, therefore, is indispensable that the States concerned would be open to effect often a radical modification of their standing legislation.

The above as regards the status of mortgage guarantees, the rights of mortgage holders and bond holders, the form of the issues and of the guaranteeing of the mortgage titles, the connection between share-capital (*capital-actions*) and the bonds and deposits, the percentage of loans in relation to the value of the mortgaged real estate property, also

[1] According, for instance, to the standing laws of England, the United States of America, Belgium, Holland and Spain, agreements are judged according to the laws of the country in which they are contracted. On the contrary, the laws of the country in which they are executed have to be acted upon, according to German legislation. In other countries a mixed policy is applied. This occurs, for instance, in respect of Austrian and Italian legislation, providing for the validity, as a rule, of the standing law of the country in which will take place the execution of an agreement, but under so many restrictions.

the privileges valid in cases of bankruptcy of the mortgage title holders.

The constitution, therefore, of the international Agricultural Credit institution, in conformity with the existing indications, would be best effected by a special law, decreed by the country in which it will have its seat, with precise specifications of all points relating to it, within the actual general frame of the standing laws of the said country, but without excluding any eventual deviations imposed by necessity. A necessary complement to this law would be the harmonising and adapting to it of the legislation of the countries partaking in the international institution,[1] and also of the statutes of their national and central Agricultural Credit institutions, as regards all those points, without the reforming of which the collaboration of the international institution with the central, or national, organisations of the respective countries would prove unrealisable.[2]

The solution, however, of the problem of the organisation of the international central Agricultural Credit institution under the form of a limited company is not the only possible one, nor, perhaps, the best of all, even under the given presumptions, on account of the conditions under which its realisation is solely attainable.

3. *A "sui generis" International Institution.*—A better solution is indicated by the creation of an institution under the form of a legal person of international law, governed by entirely original statutes, having as its basis the limited company. The fundamental lines of this institution would be strictly defined in accordance with the findings of science, and the teachings of actual practice, with provisions for their strict and unrelenting application. The secondary prescriptions of the statutes, on the contrary, would be endowed with the flexibility required for collaboration with the organisations in the various countries, without putting any obstacles in the way of the establishment and/or of the adherence to it of the national central, or, simply, higher degree Agricultural Credit organisations. This would reduce to a

[1] *Vide:* below.

[2] Cf. Tardy, *Report on the Technical Organisation of International Agricultural Credit*, in: Inst. Intern. d'Agr., *Documentation*, etc., pp. 96–97.

minimum the extent and importance of the modifications which it might be necessary to effect in respect of the organisation of these institutions and the legislation of the various countries.

For the realisation in practice of this original institution, we do not see any other solution but that of an international treaty, to which both the countries adhering to the constitutional agreement and those to partake in the future would undertake to adapt and harmonise their interior legislation within a prescribed time, and at any rate previous to availing themselves of the benefits under the scheme.

4. *The Adaptation of Legislation of the various Countries to the Requirements of International Agricultural Credit Institution.*—The extent and portent of the modifications in the status of the central and national institutions, and in respect of the standing legislation of the various countries is substantially reduced, and matters are greatly facilitated by the well-separated division proposed above of the prescriptions of the statutes of the international institution into basic and of secondary order. Nevertheless and, in any case, it is not possible absolutely to avoid the possibility of clashing with fundamental prescriptions of the standing legislation in some countries, nor with a state of things the changing of which would call for radical measures. What is required, however, in most cases, is just a little good-will—which surely will not be wanting on the part of countries anticipating so many benefits out of this new institution—in order to set aside the difficulties to be encountered and reach the reforms considered indispensable.[1]

(e) *The Varieties of International Agricultural Credit the Institution would interest itself in.*—From the foregoing[2] the exceptional importance of long-term credits for agriculture is clear. Therefore, the long- and medium-term reinforcement of Agricultural Credit within the international frame comes to the fore. So, the international central Agricultural Credit institution, would, at least in the beginning, need to occupy itself with this. We do not

[1] *Vide* below: Unification of Guarantees in International Agricultural Credit, p. 245.
[2] *Vide* especially: pp. 219–20.

exclude the transaction also of short-term credit for the future, but it is clear that by the time the international institution were able to meet in full the long- and medium-term credit needs of agriculture, in most countries, inner organisations granting short-term Agricultural Credit would find themselves organised in a satisfactory manner to guarantee a full sufficiency. The attaining of this sufficiency would, on the other hand, be greatly facilitated by important local capital being diverted in the direction of short-term placings, and this capital, if there were no foreign medium-term reinforcement, would rather tend to seek its placing in the latter direction. There would, therefore, certainly not exist any question to speak of as regards short-term foreign reinforcement of agriculture in most countries. On the other hand, whilst mortgage credit is possessed of a practically unshakable foundation, viz., land, which is but slightly influenced as from the person of its owner and the sovereign State, personal credit, on account of its guarantees being easily affected, demands a narrower frame than the international one.[1]

But, if we do not altogether exclude this kind of credit from the international frame, we do so owing to possible abundant offers of short-term credits [2] in the international market of capital at set periods, of which there would be no tangible reason for agriculture not to avail itself. Especially, in case there might be, concurrently, a comparative scarcity in credits of a longer term—a very frequent occurrence in itself—recourse to short-term credits would be, if not indicated, at least necessary to act upon. Short-term credit would be able also to offer precious services for regulating the marketing and general disposal of agricultural products, especially in times of plethoric yields. Nevertheless, the main occupation of the institution ought always to remain long- and medium-term Agricultural Credit, either under its real estate credit form proper, or of credit for real estate agricultural ameliorations, or, finally,

[1] *Vide:* Inst. Intern. d'Agr., *Documentation*, etc., pp. 139–40.

[2] We are invariably taking as a measure of time-limits that pertaining to agriculture. In saying, therefore, short-term credit we mean that fluctuating for about a year.

the reinforcing of capital destined for consolidated means of exploitation.

(f) *Guarantees in International Agricultural Credit.*

1. *Guarantees the Institution should demand.*—There cannot be any question about personal guarantees in respect of any of the categories of credit within the international frame. Also, among the real guarantees, the pledge is of little importance. In practice, only the mortgage, including, under set conditions, the privileged ameliorations mortgage, may be considered sufficient for the bondholders and creditors of the international institution, and consequently for the central and national institutions themselves. As regards the mode of transferring in favour of the international institution of mortgages registered in the name of central, or national institutions, this may be carried out in the ordinary way, but the matter would be much facilitated by introducing the system of transfers by endorsement of mortgage titles, and, still further, by reverting to the automatic transfer of the land guarantee to the international institution along with the bonds.[1]

We must, however, again recall here how delicate is this question, and emphasise the special attention the matter of guarantees in the transacting of international Agricultural Credit deserves, on account of the great differences existing in respect of institutions, similar in appearance, in the various countries, which differences cause considerable uncertainty as to their value. Hence the necessity of reinforcing real guarantees also by the guarantee of the national or central institution producing it—the extent thereof being in proportion to the degree of its participation in the withdrawing of credits of the international institution—and often also by the State guarantee. These latter, on the other hand, represent the only acceptable guarantees as far as short-term, or even sometimes medium-term, placings are concerned, in connection with which the mortgage guarantee is out of place.

2. *Unification of Legal Guarantees and other Institutions*

[1] *Vide* in connection: Mortgage, etc., in: Guarantees in Agricultural Credit, pp. 64 sqq.

connected with Agricultural Credit.—The question arises as to how far would prove advisable and practicable the general unification of legal guarantees of the various countries for the purpose of facilitating the transaction of Agricultural Credit within the international frame.[1] There cannot be the slightest doubt that a similar unification would serve as a great tonic to the "capital mobilising" qualities of the guarantees.[2] It is not, however, permissible to consider a similar radical solution to be practicable, at least in the near future, because it presupposes a fundamental modification of the civil law of most countries. But this, again, is not absolutely indispensable for international collaboration in the Agricultural Credit field.

More generally, as regards the introduction of new institutions in the agricultural enterprise, the greatest care and attention, and also a partial or trial application are imposed at the beginning, because the dangers emanating from them can only rarely be foreseen in advance.[3] Where no doubt at all arises, is the necessity of favourable conditions for the transaction and guaranteeing of Agricultural Credit in each separate country.[4] And it is generally absolutely possible, and to the interest of each country separately, to see these conditions materialised irrespective of the general strict and unrelenting unification taking place.

[1] *Vide:* Communication of Bolla, "Per l'Unificazione delle Garanzie Giuridiche del Credito Agrario" to the XIIIth International Agricultural Congress (of Rome), in: "Actes" of the Congress, Rome, 1927. Vol. IV, pp. 246 sqq.

[2] Cf. The Functions of Guarantees, in: The Guarantees in Agricultural Credit, p. 57.

[3] For instance, especially regarding the institution of "Bankruptcy," the introduction of which in agriculture for the purpose of increasing the value of agricultural guarantees is, sometimes, being so eagerly sponsored, we are bound to express many reservations. (*Vide:* Bolaffio, "L'Industria Agricola ed il Fallimento," in: *Rivista di Diritto Agrario*, 1923, No. 3, p. 261.)

It is clear that those suggesting the adoption and introduction of the institution of bankruptcy in agricultural enterprise are considering things onesidedly. Not only do they absolutely underestimate the fearful social consequences, especially wherever there is small property and small culture, but they are also forgetting its economic inadvisability under the conditions of agricultural production in most countries, as the production conditions have been shaped since the Great War.

[4] Cf. pp. 65 and 66 sqq. and: Recourse to Foreign Markets, p. 37.

(g) *Securing the Requisite Capital.*—The share-capital of the international Agricultural Credit institution will be formed out of the contributions of the national and the central institutions of Agricultural Credit. But, in spite of any effort on the part of these institutions to endow the international institution with share-capital as large as possible, the meeting of universal Agricultural Credit needs by the latter alone would prove in any case impossible. Besides, there are no serious reasons in favour of concentrating the whole attention, from the beginning, on the greatest possible volume of such capital. It would perhaps suffice even that one-tenth of the capital should be entirely paid up, and that the guarantee of the respective State should be given for the remaining percentage of its participation.

The most influential source, which could fully cover the requirements of the institution—within the bounds of the disposable means existing on the international market of capital—is the issue of bonds, or of similar titles, based on the *portfolio* of the institution composed of bonds and other titles of the national and central institutions. This would not exclude a reinforcement out of deposits. But these can only be of a secondary importance. At any rate, it would prove advisable to facilitate the deposit with the international institution of the disposable means of savings institutions in the various countries, for which equally sufficient guarantees to those applying to the guaranteeing of the bonds could be offered. On the other hand, the savings banks could invest, at least part of the deposits made with them, in bonds of the international Agricultural Credit institution. Lastly, also the contribution of banking groups of international standing to the work of the international organisation for the economic reinforcement of Agricultural Credit[1] is not excluded. Nevertheless, this contribution would absolutely depend upon the profitableness, or otherwise, presented for the groups mentioned of placings to be made in this direction. Finally, with time, the creation of a reserve fund out of deductions and differences in interest rates, etc., should be pursued.

[1] Cf. Inst. Intern. d'Agr., *Documentation*, etc., p. 117.

The great problem for the unhindered securing of capital here, as within the limits of the national frame, consists in the balance between the yield from land and the interest rates. Is this attainable, or not? If not, what concessions should be made in this respect?[1]

(h) *Interest Rates and Cost of Loans.*—The rates of interest to be paid by the international Agricultural Credit institution in order to secure capital on the free market should be sufficiently high for an easy attraction of depositors and the placing of bonds, but should not exceed, as far as practicable, the limit laid down by the very nature of agricultural enterprise, and especially, by the yield of medium- and long-term placings in agriculture which would form the main business of the institution.

The covering of general and other expenses of the organisation and the gradual creation of a reserve fund would, on the one hand, be attained only by fixing a sufficient difference between the height of the interest rates paid by the institution and that of interest charged. From this there would arise a corresponding increase in interest rates to be encashed by the international institution.

Regardless of the prestige of the said international institution, and even although the States interested would immediately participate in it and accord it their guarantee—as provided lower[2]—the cost of the loans, with the addition of the aforestated increase, cannot be kept at the low levels demanded by the nature of agricultural enterprise. In order, therefore, to have the cost reduced, it is absolutely necessary that the interested States should grant a full exemption from taxation of every description, or other burdens, in respect of the bonds and bills issued by the institution as well as regarding the loans granted by it to the various local central and national institutions.

As regards the rates of interest to be charged by the international institution, it is questionable as to how far preference should be given to uniform rates being fixed

[1] *Vide:* Inst. Intern. d'Agr., *Documentation*, etc., p. 117.
[2] *Vide:* p. 250.

for all borrowing countries, or, if these should fluctuate, in conformity with local conditions prevailing, *i.e.*, in conformity with the standing rates applicable to each category of Agricultural Credits.

This solution may be, from the point of view of finance and banking, the most reasonable one, but it would not perhaps prove to be the one indicated for the purpose, among other reasons, from the standpoint of equity, equality and also of the objects aimed at. The fixing, on the other hand, of uniform interest rates on sums granted would represent a most serious technical mistake, which might lead to great inconvenience, and would be indirectly opposed in a radical way to the fundamental aim and object of the institution, which is, the rational repartition of available credits. We are, therefore, led to believe it right and just to have varying interest rates fixed with regard to set groups of the countries; but this in conformity with the requirements for a rational organisation of world agricultural production, the rendering from agricultural enterprises, and other considerations of more general social and moral nature and advisability.

(i) *The Bonds.*—The existence of varying rates of interest and other terms for the grant of loans, for each given country, gives birth to the question as to whether, for the purpose of financing agriculture in each country, the institution should proceed to the issue of a special series of bonds bearing special conditions, or whether a uniformity in issues should be aimed at.[1] In principle, the existence of a multitude of varying issues is anything but indicated from any point of view.[2] Nevertheless, where the state of things imposes sensible differences in the terms of granting of credit in respect of various countries, it would be advisable to have the latter classified by groups, on the strength of the evaluation of the conditions that may influence the disposal of the respective bonds and similar titles, and issue as many series of bonds as there would be

[1] *Vide :* Tardy, *Report on the Technical Organisation of the International Agricultural Credit*, in: Inst. Intern. d'Agr., *Documentation*, etc., p. 99.
[2] *Vide :* The Policy for Securing Capital, p. 207, § 3.

groups of States presenting serious and distinct differences and demanding corresponding differences as regards the interest rates and other terms for the granting of loans. A grave obstacle against the issue of bonds of one and only type and contents is presented also in the differences prevailing in respect of the status of mortgage in the various countries.

The guaranteeing of the payment of coupons and of the drawings and the amortisations of bonds is attained by means of the mortgage and other guarantees already mentioned. But the share and reserve funds represent a no less important supplementary guarantee for the bondholder. The ideal thing would be for all the States interested in the international Agricultural Credit institution additionally to guarantee, by mutual liability, the bonds and other titles issued.

This, however, is unattainable, and the guarantee of each State in respect only of the sums of bonds concerning its own country would be sufficient. The above in so far as long- and medium-term credit is concerned, the respective bonds bearing within the measure of possibility a mortgage character.

For securing short-term credits, especially floating ones, the issue of interest-bearing bills (*bons*) would be practicable. But for the latter the State guarantee is indispensable, so as to afford some substantial guarantee for the holder.

(j) *The Number of the International Institutions and the Independence of the Agricultural Credit Branches.*—Irrespective of the commonly acknowledged far greater necessity of the international organisation for a more or less long-term Agricultural Credit in comparison with that of short-term credit, and also of the natural advisability for the attainment of the sufficiency of the latter to depend upon the personal means of each country, as far as practicable[1] —in order that the whole effort of the international organisation be concentrated, at least in the beginning, on medium- and long-term credit—exceptional events, and

[1] *Vide*: p. 243.

the special conditions and difficulties which certain countries found themselves obliged to face in agricultural economy [1] during the past years, have directed international interest also towards an up-to-date organisation in respect of short-term Agricultural Credit.

There is, therefore, a certain importance to be attached to the question of how far international short-term credit ought to be carried by the institution which would be entrusted with the transaction of long-term Agricultural Credit, or whether an independent international institution of short-term Agricultural Credit should be established. In practice, the decision to separate them has prevailed, and the foundation of two organisations has been decided upon, one to occupy itself with long- and medium-term Agricultural Credit, and the other with short-term credit. There cannot be any doubt that even within the international frame the nature and the conditions of carrying short-term Agricultural Credit transactions differ totally from those of long-term credit; nevertheless the idea of concentrating the whole work and the possibilities of repartitioning and regulating of international Agricultural Credit in the hands of one and the same organisation is one which, at least in our judgment, should prevail. The organisation could simply comprise two sections independent of each other, within certain limits, corresponding to the two branches of long-term (including medium-term) credit, and of short-term credit.

Centralisation is indispensable both for perfect and for economical organisation and, especially, from the point of view of the securing of means, of the credit policy to be applied and of the control of this latter in practice. This has already been universally recognised as regards the organisation of Agricultural Credit within the national frame, and it is clear that the very same reasons apply to the extension of these ideas to the international field, whilst we see no important reason which could minimise the value of what has been stated above.

The separation within the same institution, of short-

[1] Especially in Eastern and Western Europe.

term credit from more or less long-term credit is imposed by many reasons, but principally on account of the difference in the nature of guarantees on which each category is based, and which here have a decisive influence on the methods to be utilised for the securing of the respective means required, and for the disposal of these credits. There are no reasons in favour of separating medium-term Agricultural Credit from that of long-term, at least as far as guarantees are concerned, it being granted that, in the international field, among the real guarantees only the mortgage ones here possess a practical value.[1]

From another point, however, viz., that of the destination of credit, there is nothing that can be opposed to the separating of long-term credit—which corresponds to the real estate credit proper—from medium-term credit—composed, on the one part, of the consolidated means of exploitation credit, and, on the other, of a section of credit for ameliorations; nor is the distinction of ameliorations credit from real estate credit to be considered as aimless. Anyhow, it must here be remarked that these distinctions have not in this matter the importance they bear in connection with Agricultural Credit transacted within the State boundaries. In international Agricultural Credit the importance of the agricultural economics aspect of the problem is reduced, whilst that of the financing and banking aspects is increased. It is the question of guarantees that here precedes all others, and the latter mainly define the distinction and the separation into categories.

(k) *Procedure for the Permanent Organisation of International Agricultural Credit.*—Expert opinion has been divided as regards the mode of procedure for the realisation of the international organisation of Agricultural Credit. Some consider that, before giving any thought to the materialisation of international organisation of Agricultural

[1] This contrary to the medium-term credit within the State frame, a great part of which consists in exploitation stock credit, with which it corresponds within the aforesaid limit, and which is as a rule based on the pledge under its various forms. (*Vide:* Agricultural Credit against Pledges, p. 90, also Guarantees in the Consolidated Means Exploitation Credit, p. 110.)

Credit, the organisation in a sufficient and satisfactory manner of Agricultural Credit within the national limits should be instigated, and more especially the organisation of a national or a central Agricultural Credit institution ; also the securing by each country of a corresponding legislation inspired by settled principles, and, what is more important, the setting in order of matters relating to landed property and real estate guarantees in a way that fully guarantees the capitalist. In the meantime, it is considered that the needs of the moment could be met by direct advances from country to country.

Others, on the contrary, have been advising the immediate laying of the foundations of the organisation of the international Agricultural Credit institution, and starting within the shortest possible time, by using as its foundation stones the national and central Agricultural Credit institutions which are not hindered by any serious obstacles. It would lay down, from the very beginning, the basic presumptions under which alone the acceptance of the participation of others would be allowed, and decide what shape and what elements the organisation of Agricultural Credit in the country desiring and applying for economical reinforcement should possess, and what guarantees it should offer. Following which, the institution may proceed with its work.

Out of these two solutions of the problem, the second has definitely prevailed.[1] It was a happy solution, because if the first had been adopted, it would in substance amount to the deferring of the question *ad calendas græcas*. The second solution affords an immediate partial solution of the whole of the great problem, and it contains sufficient factors for the gradual completion and crowning of the whole work.

As a matter of fact, the systematic organisation of Agricultural Credit and the setting in order of all its items, also of matters relating to immovable real guarantees within

[1] *Vide:* Société des Nations, *Société Internationale de Crédit Hypothécaire Agricole*. Convention, Charte et Statuts approuvés par le Conseil de la Société des Nations et signés le 21 Mai 1931, et autres documents y relatifs (Série 1931, II. A. 13, No. C.375, M.155), Genève, 1931

the boundaries of the various countries, can only be realised gradually.

In the meantime, however, there are no reasons whatever why the strengthening of Agricultural Credit should not be proceeded with among the countries in which Agricultural Credit organisation and also the status of their real guarantees present the perfection demanded of them, and also the rational repartition among them of available capital.

The existence on the other hand, of this international organisation and the possibility of recourse to it, under certain precise circumstances, will surely increase the zeal of the countries left behind to promptly put away all obstacles, and to be ready to comply with the instructions for setting themselves in order, on the part of the central international Agricultural Credit institution, from which they would in future seek and hope for reinforcements. Thus, in time, all the desired and practicable uniformity in the organisation of Agricultural Credit will be attained, as well as in the laws generally relating to it of the various countries.

But the second solution is superior also from another standpoint.

As a matter of fact, looked upon even from the angle of their inner organisation and of the regular and sure working, it is more advisable for the field of action of this style of institutions not to be very wide at the start. It suffices to make provision, from the beginning, for any eventual extension of the circle of their activity, and for the full measure of flexibility in the whole of their constitution that would be required in the future.

(l) *The More General Policy of the Institution.*—In this order of ideas, the international Agricultural Credit institution only has a financing, repartitioning and regulating mission, mainly of a public utility character, regulating both the production and the marketing of agricultural products. This definition characterises in a rather condensed but clear way its more general policy.[1] On the other hand, the moral and material foundation of the

[1] Regarding the more particular policy, *vide* also: pp. 243 sqq.

international institution on the local central and national Agricultural Credit organisations of the different countries [1] would not prove so complete without an adequate mutual following-up, and would lose in its substance in the event of the control of the international institution eventually going further than the most general lines of the credit policy and of the situation of the central and national institutions.

Any attempt on the part of the international institution to control in its details, through a casual examination on the spot, even simply the productive disposal of the means granted by it to the local national institutions, or the sufficiency of the guarantees offered to it (for instance, the connection between the amount of each loan and the value of the real property given as mortgage, etc.), would not only be in contradiction to the basis on which the whole collaboration system is founded—amounting to a lack of confidence—but would also prove exceptionally expensive and nearly impossible to carry out in practice.

The international institution should limit itself to judging the perfection of the organisation, the economic surface and the confidence deserved by the central and national institutions—especially in regard to status of guarantees and total value of the guarantees offered to it —the whole of their career, the tradition, and, finally, the general lines of credit policy of these institutions. And we have to insist upon the fact that the ascertaining of even these items is permitted and practicable *grosso modo* only.[2] If the international institution should deem the guarantees offered insufficient, it might simply demand additional ones, and in the event of a given central or national institution being found generally wanting as

[1] *Vide* supra ; p. 247 and elsewhere.

[2] Our conceptions as above are in conformity with the official views of the central and the national institutions of Austria (*Vide* : Inst. Intern. d'Agr., *Principaux Résultats d'une Enquête Bancaire*, etc., p. 37), Argentina (*Vide* : id., *op. cit.*, p. 31), Bulgaria (*ibid.*, p. 41), France (*ibid.*, p. 46), Poland (*ibid.*, pp. 79 and 80) and of other countries.

On the contrary, the Deutsche Rentenbank-Kreditanstalt (*Vide* : *ibid.*, pp. 19 and 20), Holland (*ibid.*, pp. 69 and 74), the Swiss Bank Leu & Co. (*ibid.*, p. 91), and, partially, Italy through the Istituto Italiano di Credito Fondiario (*ibid.*, p. 50), lean to the opposite side.

regards confidence, or following against reason an unscientific policy contrary to that of the international institution, the latter might simply refuse its assistance.

Any eventual more energetic interference, or of a different nature, with matters of inner order of the national or central institutions would be detrimental to both these latter and to the international collaboration in this field, and would lead to the shaking from its very foundations of the international institution of Agricultural Credit.

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